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2004 ANNUAL REPORT

Western Financial Group

... BECAUSE WE LIVE HERE

AR76

Corporate overview

2004 ACHIEVEMENTS

Number of full time employees	558
Number of customers	180,000
Number of provinces in which WFG has offices	4
Number of Communities served	51
Ranking by size of P&C insurance brokers in Canada	4th
Ranking in Alberta Venture magazine's "Fast 50" for 2004	16th

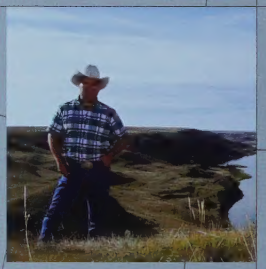


1

1. Group benefit programs as well as P&C products are sold to small and medium sized local businesses in 51 western communities.

2. Farm and agri-businesses are one of WFG Agency Network's main commercial insurance sectors.

3. The tornado that hit several of the farms we insure in Vulcan, Alberta in 2004—all claims were paid to satisfied customers.





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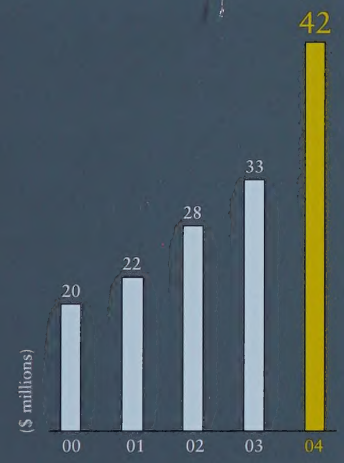
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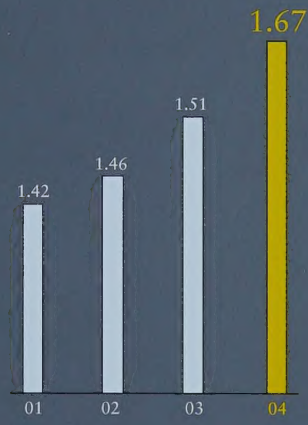
INSURANCE • INVESTMENTS • BANKING

Financial Highlights

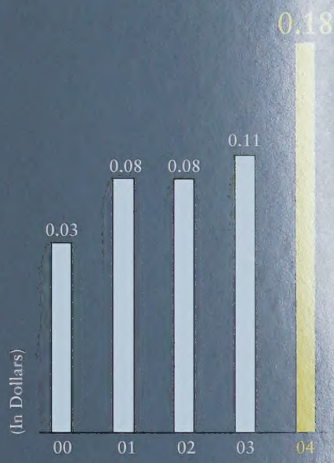
TOTAL REVENUES



AVERAGE NUMBER OF PRODUCTS PER CUSTOMER



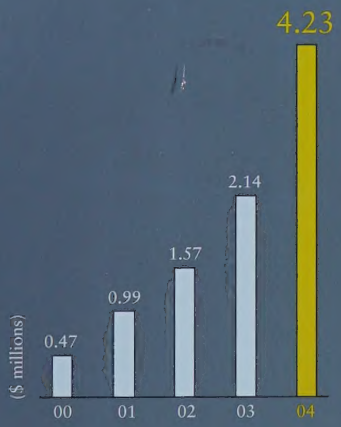
EARNINGS PER SHARE



180,000 CUSTOMERS • 558 STAFF • 51 COMMUNITIES



NET INCOME



FINANCIAL HIGHLIGHTS

Twelve months ended December 31	2004	2003	% change
CORE BUSINESS			
Revenue ($)	**36,068**	29,456	22.4
Operating income ($)	**10,264**	8,254	24.4
BANK WEST			
Revenue ($)	**695**	285	143.9
Operating income ($)	**(1,125)**	(1,038)	(8.4)
CORPORATE & ALL OTHER			
Revenue ($)	**5,480**	2,925	87.4
Operating income ($)	**(1,127)**	(1,737)	35.1
OVERALL			
Revenue ($)	**42,243**	32,666	29.3
Net Income ($)	**4,229**	2,120	99.5
Earnings per share			
Basic ($)	**$0.18**	$0.11	63.6
Diluted ($)	**$0.16**	$0.10	60.0

Key Business Drivers

As at December 31	2004	2003
Same-store Revenue (% change)	**+6.6**	+13.8
Operating Margin (year to date, %)	**19.0**	16.8
Average Items per Account	**1.67**	1.51
Same-store Customer Count (year-to-date annualized, % change)	**+4.0**	+4.0

Chairman's message



Dear Fellow Shareholders,

Welcome to Western Financial Group's 100th year of business. From our humble beginnings as an insurance agency in High River in 1905, we continue to offer insurance, investments and banking services based on a century of trust, and the sound relationships we have built in our communities in four Provinces in western Canada.

Your company is anchored in the bedrock of westerners' attitude: hard work and perseverance make us strong. We in the west are blessed with a bounty of rich resources: agriculture, forestry, petroleum and mineral resources as well as industry and manufacturing. WFG focuses more on the west's small and medium sized enterprises as we believe that's where we can help our customers make a difference. Our western economy outpaces the rest of the country and we're determined to keep it that way.

We at Western Financial Group believe we can create a customer-friendly financial services company that's large enough to respond to the financial appetite of the west. A company born here. One that stays engaged and connected with its customers through every business cycle. One that knows the rhythm of business in the west. This is our market. Because we live here.

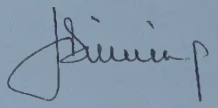
That's the kind of company our employees at Western Financial Group are building. A financial institution rooted in the towns and smaller cities of the west, as big as the west itself. And here for the west.

I am honoured to serve as your Chairman following in the sizeable shoes worn by my predecessor Jim Robb. Jim served as WFG's chairman from 2002 to the fall of 2004. All of us are indebted to him for his leadership. We're fortunate to have a board of directors made up of experienced and knowledgeable business leaders--from large corporations to regional entrepreneurs. And this past year we welcomed Bill Yuill to the board. Bill brings years of experience in business communities across the continent, many of them smaller centres. So he knows the true nature of WFG's business.

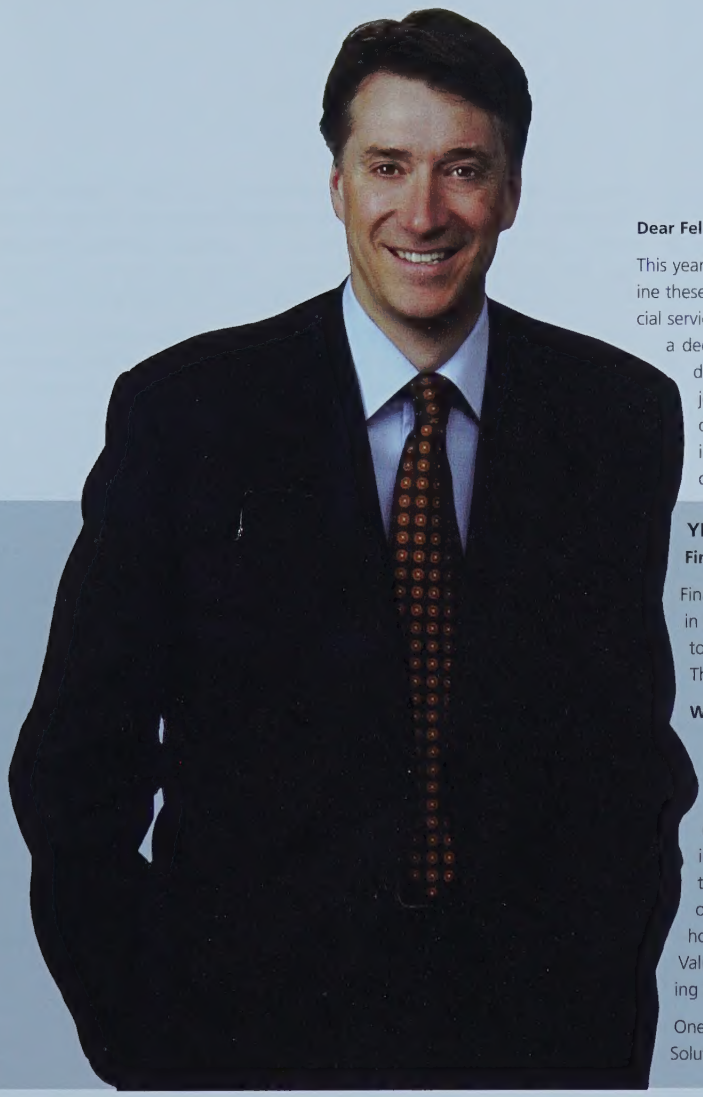
Your board is fortified by a strong talented team of professionals led by Scott Tannas. We are impressed with this lean, dynamic team and Scott continues to demonstrate his reputation as one of western Canada's best young corporate leaders.

As the results show, your Company had a good year in 2004. On behalf of all shareholders, I want to thank our employees across the Network. Without their talent and dedication, WFG would be just another company. Because of them, we're in a great position going into 2005 to meet our goals.

Finally, I want to thank you, our shareholders, for your continued support of our company. We won't let you down.



Jim Dinning
Chairman of the Board



Dear Fellow Shareholders,

This year's annual report speaks to our company's commitment to growth and stability. As you might imagine these two attributes require balance. We at Western Financial Group are committed to building a financial services company of considerable scale – one that will be amongst the most powerful in Canada within a decade – while delivering reliable, and growing financial results today. In the pages that follow, we detail for you the remarkable progress we have made in building our business since we began our journey. We also provide you with a significant amount of financial data that we hope highlights not only the fact that while we are growing the bottom line every year, we are also investing in our future in a way that will allow us to continue to increase our profitability in subsequent years. This is all part of the balance of growth and stability.

YEAR IN REVIEW

Financial Results

Financially, we enjoyed a successful year, surpassing our expectations. Significant growth was achieved in all important measurements, including EPS, up 64%, net income up 99%, and ROE improving to 7.3%. All of this was accomplished while we continue to subsidize the start-up of Bank West. The impressive earning power of our Network is starting to shine through.

WFG Agency Network

The Network had an outstanding year, posting solid growth in same store sales, same store customer count and items per account (average number of products purchased by each customer). The Network is the foundation on which our company is building. In addition to providing us with terrific profit and free cash flow, it is the custodian of our customer relationships. The Network is an industry leader in the sale and service of property and casualty insurance. While we are determined to grow our profitablilty by selling customers other financial services products, we must always recognize that we will only get that chance if we stay strong and innovative in our core products of home, auto, farm and commercial insurance. That's why the Network introduced its Guarantee of Value last year, and why we will continue to find ways to enhance our core product and service offering in property and casualty insurance.

One of many highlights for the Network this year was the growth and value provided by WFG Insurance Solutions, the Network's internal department that arranges insurance for customers with complicated or

specialized requirements. This department, under the leadership of Joe Stark placed $4.0 million of general insurance premiums in 2004. WFG Insurance Solutions was an early "long term value initiative" that after 7 years is starting to pay off.

Tom Dutton led the Network to its best year ever in 2004, before accepting a new strategic role at Western Financial Group. Lana Wood joined us in November, in time to undertake planning and execution for 2005. Lana is a 20+ year industry veteran, and is already making her mark as the Network's new President. As always, however, the real heroes of our company are the hundreds of men and women who serve our customers in our branch offices. Their commitment to customer service allows our revenues and reputation to continue to grow.

Bank West

The Bank continued to steadily build its asset base, growing at an average rate of $2.23 million per month. Doug Foster and his team are carefully shepherding our little institution toward profitability, and are on track to achieve the targets we set for the bank when we opened its doors two years ago. Although we have few current models to follow in Canada, traditional wisdom is that it takes 3-5 years for a bank to turn a profit, and we appear to be on a path that will affirm that sentiment.

Investment Business – Jennings Capital and Western Mutual Fund Company

Our partnership with in Jennings Capital yielded a spectacular return in 2004. In addition to delivering a great financial result for us, the Jennings team was instrumental in assisting us in the founding and start up of Western Mutual Fund Company, our in house mutual fund dealer. Jennings staff continues to provide critical back office services to the Fund Company, helping us keep costs down as we grow the business.

Capital Raising and Acquisition of Federated Life

Activity around the acquisition of Federated Life Insurance Company of Canada was a major focus of the past year. In last year's letter to shareholders, we identified entry into the group benefits business as being a priority for us in 2004. Federated Life was undoubtedly a larger acquisition than we envisioned making when we laid out our priorities – in fact it is the single largest deal we have ever done. However, we believe we have been presented with a rare opportunity – to own and operate a Canadian Life Insurance company – and we are determined to make this a significant success.

Starting in May we worked with various regulators to obtain approval for the transaction. The process was lengthy and rigourous. Raising capital in support of the Federated transaction required us to seek equity in the form of the issuance of common shares. Throughout the fall we worked on the development of a long form prospectus, detailing the business rationale, and the financial impact of Federated Life. The prospectus represents hundreds of hours of time - we are extremely proud of the document- and I invite all shareholders to read it to fully understand what we have today, and what we are building for the future at Western Financial Group. All of this activity culminated in early 2005 with the completion of a $22.3 million common share offering and the closing of the acquisition of Federated, and its renaming of Western Life Assurance Company. The equity issue and the acquisition together represent a significant transformation of our balance sheet, one that we believe makes us much stronger.

Priorities for 2005

As has been the tradition in past years, we provide you with a review of our past years' activities (see "keeping our word"- page 7) as well as a list of priorities for the coming year. The priorities for 2005 have been aptly described by one of our directors as "sweating the assets":

- Launch Western Life products into the WFG Network – Prospecting and Sales campaigns for individual life products were underway within days of the closing of the acquisition. The major campaign launch for employee benefits programs targeting our commercial customer base will commence in the second quarter.
- Accelerate growth at Bank West – This is a holdover from last year, and remains an

important priority. In order to be profitable the Bank needs to grow its loan book. While their growth rate has been impressive, we will continue to work to find new, profitable customers for the Bank.

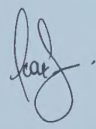
- Watch our costs, and manage our balance sheet – We are introducing a rigourous planning and reporting regime this year that we believe will help us keep a close handle on our sales and expenses. In addition, we are taking steps to better manage our growing cash float, our receivables and make sure we are earning investment income and / or reducing our debt costs.

- Improve investor awareness – in 2004 and early 2005 our stock price declined, despite major financial and developmental advances by the company. This was a disappointment for all shareholders, including me. Our treasury's appetite for new capital ($43.3 million over the past 18 months) competed to the detriment of market trading, and certainly was a major influence on our stock price. We must do better. We are implementing a comprehensive investor relations plan in 2005 to ensure that we are doing everything we can to maximize our share value.

I would like to welcome all new shareholders to Western Financial Group. Your investment in our company, will help us grow and create strong value. I would also like to thank all our long term shareholders for their patience and support through our journey together as we build Western Financial Group into a strong and vibrant financial services company.

I look forward to reporting our future progress.

Sincerely Yours,



Scott A. Tannas
President and CEO

KEEPING OUR WORD

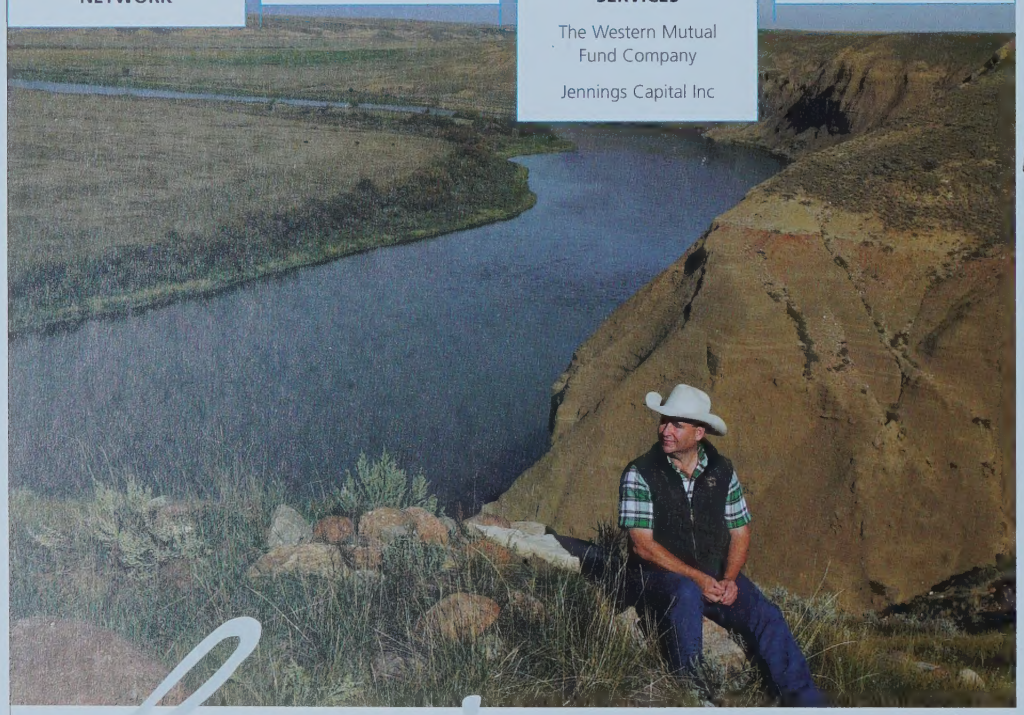
2004 Objective	**2004 Perfomance**
Complete acquisitions for WFG Agency Network	The Network was expanded through 6 acquisitions.
Accelerate Bank West's time to breakeven	We identified and analysed a number of potential acquisitions, none of which were ultimately suitable. This objective remains a priority.
Explore and evaluate new market opportunities	The Company identified and agreed to acquire Federated Life, a major move into the Employee Benefits business.
Raise Company profile	Our new corporate Magazine named "WEST" was launched on a quarterly basis to all retail customers. Over 50 full presentations were made to brokers and potential investors.

"FINANCIALLY, WE ENJOYED A SUCCESSFUL YEAR, SURPASSING OUR EXPECTATIONS. ALL OF THIS WAS ACCOMPLISHED WHILE CONTINUING TO SUBSIDIZE THE START-UP OF BANK WEST. THE IMPRESSIVE EARNING POWER OF OUR NETWORK IS STARTING TO SHINE THROUGH."

Corporate profile

WESTERN FINANCIAL GROUP

WFG AGENCY NETWORK	BANK WEST	INVESTMENT SERVICES	WESTERN LIFE
		The Western Mutual Fund Company Jennings Capital Inc	



1

1. An Agency Network customer in southwest Saskatchewan on the South Saskatchewan River.

2. WFG received a number of awards including Ernst & Young's "Entrepreneur of the Year" in 2003.

3, 4. "Oil and gas" along with "farm and ranch" drive our western economy.

2



QUICK STATS

Total current full time staff	558
Total current communities served	51
Total number of competing companies in W. Canada	800+
Average (median) population of community served	2,950
Number of new divisions established in past 3 years	3*
Compound Annual Growth Rate total revenue (last 5 years)	21.9%
Increase in Revenues 2004	29.3%
# of business awards won in past 5 years	8
The word "Customer" appears in this Report	32 times

*2002	Canadian Bank charter obtained for Bank West
2003	The Western Mutual Fund Company established
2004/5	Acquisition of Federated Life/Western Life



WHO WE ARE

We are a leading financial services organization with a focus on towns and smaller cities in Western Canada.

Western Financial Group is comprised of four business units, with our primary unit being the **WFG Agency Network**, the fourth largest P&C insurance broker in Canada and the largest in Western Canada (Canadian Insurance Journal, April 2004). The Network's products and services include the distribution of automobile, home, commercial and farm insurance, banking products (deposits and loans), life insurance (term life and health) and investment products (mutual funds and other services).

Other products and services provided by units in which we are also involved are offered through the Network, driving growth through the strong and stable core retail business.

Bank West is a Canadian chartered bank, which commenced operations in January 2003. We have an interest in life insurance through **Western Life Assurance Company**, a federally regulated insurance company that provides proprietary life and health insurance products to individuals and small to medium sized businesses in Canada, and we are involved in the investment business through **The Western Mutual Fund Company Ltd.** We also have a strategic partnership with **Jennings Capital Inc**, a full service investment dealer headquartered in Calgary, Alberta.





The WFG Executive Group: Tom Dutton, Catherine Rogers, Scott Tannas and Bill Rogers

OUR STRATEGY

Our strategic objective is to be the financial services provider of choice for individuals and businesses in our communities in Western Canada. In order to achieve our strategic objective we:

- provide our customers access to a broad range of products;
- leverage the strength and stability of the Network to cross-sell complementary products and services;
- provide industry-leading service in our core business;
- expand our manufacturing platform opportunistically;
- pursue additional Network acquisitions; and
- build the "Western" brand.

OUR COMPETITIVE ADVANTAGES

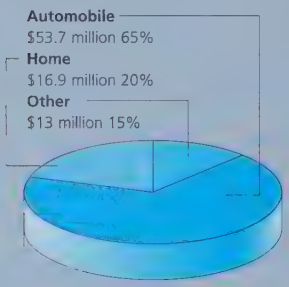
We believe we are uniquely positioned in our principal markets due to the following competitive advantages:

- scale in our core business;
- acquisition and integration experience and expertise, which allows us to minimize integration difficulties and maximize synergies;
- a diversified and complementary product offering, tailored to industries prevalent in our current communities (e.g. agriculture, energy and natural resources);
- customer loyalty from our local presence through our emphasis on a strong regional and rural theme; and
- financial strength.

WFG agency network

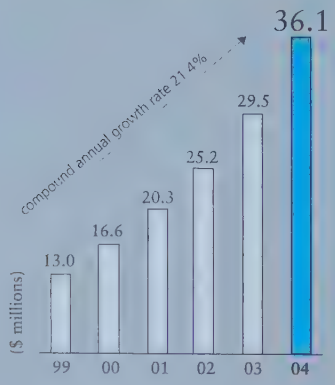
Starting from a single location in High River, Alberta, the Network has grown in over 8 years to 54 branch offices located across Western Canada, and has become the fourth largest P&C insurance broker in Canada and the largest in Western Canada. Through the Network, we also sell a broad range of complementary financial products and services, including banking, life insurance and investment products from a large number of financial institutions, including Bank West.

PERSONAL INSURANCE



(Does not include estimated $59 million BC, SK and MB government auto insurance premium)

THE NETWORK'S REVENUES



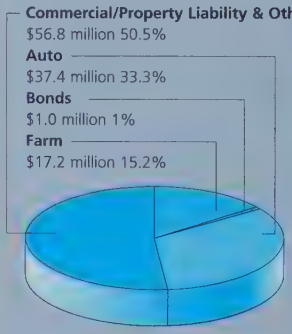
The Network distributes the vast majority of its products through its branch offices where new business is derived from customer referrals, walk-in customers and telephone inquiries. The Network also utilizes direct sales techniques such as targeted mail and telephone campaigns to distribute its products.

Since 1999 we have been successful in growing the Network's commission revenue from $68.6 million to $251 million for 2004, representing a CAGR of 29.6%. Over the same period, we have grown the Network's commission revenues from $13.0 million to $36.1 million.

AUTO, HOME AND OTHER "PERSONAL" INSURANCE

(recreational vehicles, travel, excess medical and umbrella)

The Network offers a wide selection of insurance products from a large number of regional and international P&C insurers. The Network sold $83.6 million of personal insurance premiums with personal automobile insurance accounting for 42.7% of the total for the year 2004.





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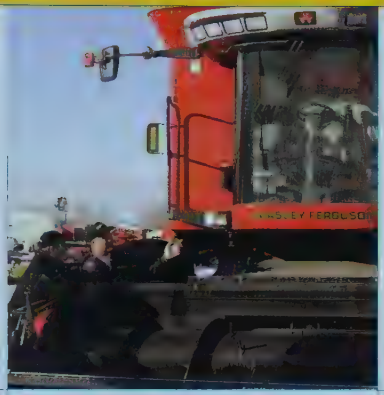




3



4



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1, 3. Agency Network customers in Alberta

2. Our local office in Bassano, AB.

4. WEST Magazine, distributed to over 100,000 customers quarterly

5. Farm Dealership in Saskatchewan

6. Agency Network Customer



6

COMMERCIAL INSURANCE

The Network offers various types of commercial insurance for small, medium-sized and larger businesses, farms and certain government agencies. For small businesses and farms, insurance policies are "packaged" in one comprehensive policy and include coverages for liability, property and other contingencies. For those with more complicated insurance needs coverages are arranged separately.

For complex accounts or for customers requiring coverage for extraordinary risks, the Network also operates an internal special risk division whi with specialized insurance providers.

gas services, agribusiness, assisted living facilities, day cares, schools, professional liability and others. This in-depth expertise is shared throughout the Network's branch offices to enhance its ability to service its customers in all of our markets.



Agency Network Executive Group. Rear: Duncan Scott, Greg McGill, and Joe Stark. Front: Wendy Belik, Lana Wood and Darlene Gehrke

WFG agency network

OUR GUARANTEE OF VALUE

Taking the best Products available and adding Superior Service.

We provide the best Products available through our Partner Insurers, which are some of Canada's biggest Insurance Companies who are also investors in Western Financial Group, and from over 150 other insurance companies and general agents with which we deal.

We know we also provide our customers with industry leading service, and we commit to it through our **Guarantee of Value**. It represents the ideal qualities that insurance brokers should possess and the standard of service they should provide to their customers.

Our Guarantee of Value is a set of measurable service promises, which include:

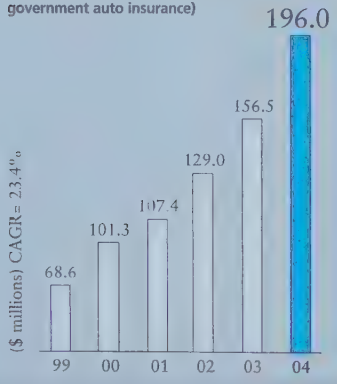
- Smart people who care, trained and educated to exceed industry standards.
- Regular attention to our customer's insurance policies through our CARE and CASE policy reviews.
- The widest selection of high quality and competitively priced products.
- A Fairness Guarantee - an unprecedented committment to ensuring claims matters will be settled fairly and quickly.

It may be unique in our industry, addressing customers requests for:

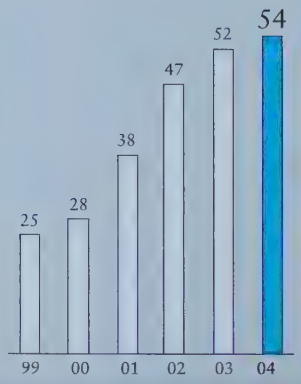
- Sound insurance advice.
- Competive pricing, checked regularly.
- Knowing that we will be here to help them when they have a claim.

NETWORK PREMIUM SALES

(General Insurance, not including government auto insurance)



GROWTH OF NETWORK BY OFFICES





1

2





3

1, 3. Southern Alberta customers of Agency Network

2. The longest free suspension bridge in Canada, located near our office in Souris, MB

4. What we are all about too. A local customer in Nanton, Alberta.

5. A couple of future customers near Brandon, Manitoba

6. The hard working crew of our office in Taber, AB.

4



5





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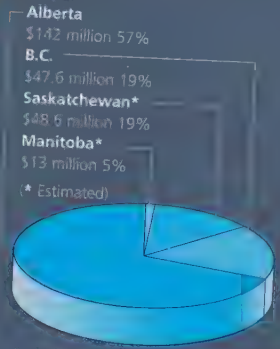
OTHER INSURANCE PRODUCTS

The Network sells life insurance products to existing customers of the Network through its licensed life insurance sales force. Life insurance products include financial protection products such as term life, critical illness and disability insurance for individuals and groups, as well as products that have an added investment component such as universal life policies and segregated funds. The ability to offer very competitive life products has been recently enhanced by adding Western Life to the growing Western Financial Group family.

NON- INSURANCE PRODUCTS

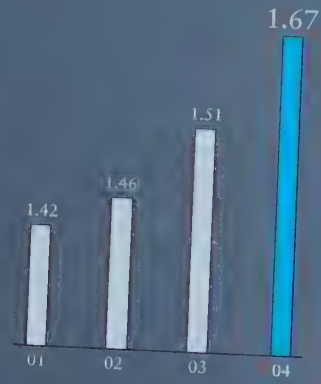
Over the last four years the Network's customer accounts have steadily expanded, by an average of 15.5% annually. At the same time we have increased our emphasis on expanding the Network's product and service offering beyond its core strong and stable group of insurance products. These products and services include agency banking (deposits, loans and mortgages), life insurance and mutual funds. In addition our offices in British Columbia, Saskatchewan and Manitoba issue vehicle licenses, as do several in Alberta. By leveraging its core customer base through cross selling complementary financial products and services, the Network has been successful in increasing the average number of products per customer account sold from 1.42 at the end of 2001 to 1.67 at the end of 2004. The combination of increasing both the number of customers and products per customer account has an enhanced effect on the growth of the Network's revenues. Revenue growth is further impacted as pricing increases.

INSURANCE PREMIUM SALES BY PROVINCE



(Includes government auto insurance for BC, SK and MB)

PRODUCTS PER CUSTOMER ACCOUNT



WFG agency network

AGENCY BANKING AND MUTUAL FUNDS

The Network offers deposit products (GICs, daily interest savings accounts and term deposits) for a wide range of banks (including Bank West), credit unions, trust companies and other third party financial institutions. It also markets loans and mortgages for Bank West on a referral basis. Customer inquiries are generated through direct mail and database marketing campaigns. Rate quotes and application information on these mortgages and loans can be obtained at each Network branch office and prospects are referred directly to Bank West's office in High River, Alberta for follow up by a loans officer. The Network also acts as an agent for Bank West to provide policy premium financing, which enables purchasers of insurance policies to make monthly premium payments. Since 2003, the Network has grown its loan referrals to Bank West to more than $17.0 million as of December 2004.

The Network sells a wide selection of mutual funds manufactured by third parties, and provides other mutual fund services in many branch offices through a mutual fund sales force supervised by The Western Mutual Fund Company



Two of our Financial Services members, Frank Block and Duncan Scott.



2



3

1. With 5 locations in the Kelowna area, our offices worked round the clock in the summer of 2003 to look after customers caught in the Okanagan Mountain Park fire

2. Late summer arrives on a farm near Wainwright, AB

3. Even with industry leading technology (TAM), there is always plenty of paperwork



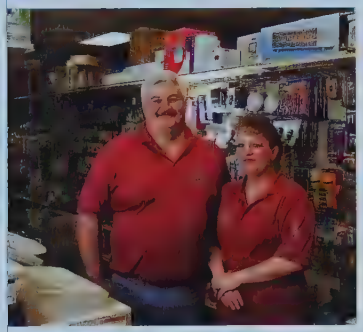
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QUICK STATS

Total number of customers	180,000
Average # of phone calls answered daily	17,000
Average number of customers seen weekly in offices	2,400
Total number of Network offices	54
Average CAGR growth in products per customer	5.6%
Target Communities for future expansion (6 to 8 years)	159
Average value of new homeowner property insured daily	$2.5M
Average new commercial insurance premium written daily	$28,000



1



2

1, 2. Agency Networks customers in Alberta and B.C

QUICK STATS

Estimated total AUA $167.1million

* Includes Mutual Funds and fixed interest & investment products such as GIC's

THE WESTERN MUTUAL FUND COMPANY

In April 2004, The Western Mutual Fund Company (TWMFC) received approval from the Mutual Fund Dealers Association of Canada, the primary regulatory body for mutual fund dealers in Canada. The establishment of TWMFC allows the Network to control its customer service process and have the "Western" brand linked to these services. It also works closely with a company in which WFG made an equity investment in 2002, Jennings Capital Inc.

JENNINGS CAPITAL

Jennings Capital is a full-service investment dealer with offices in Calgary, Vancouver and Toronto. Jennings was founded in 1993 as an oil and gas corporate finance company and has since grown to be one of the West's leading investment dealers. It is a member of the TSX, TSX Venture, IDA and CIPF. It provides administrative services to TWMFC by way of shared personnel in the areas of compliance, accounting and finance, and customer account services.

The WMFC team: (Rear) Craig Francis, Nancy Peck and Bob Verhelst. (Front) Gail O'Connor and Louisa Ng.

Western Life

The newest member of the growing Western Financial Group family is Western Life Assurance Co.

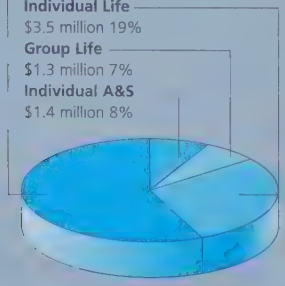
In February 2005, Northbridge Financial Corp sold the outstanding common shares of Federated Life to Western Financial Group, and the name was subsequently changed to Western Life Assurance Company. The company, which had $18.3 million in net premium revenues and $20.7 million in total revenues for 2004, provides life and health insurance products to individuals and small to medium sized businesses throughout Canada, with a focus on Western Canada and Ontario.

Western Life, like Bank West, is a federal financial institution. The company has been profitable in each of the last 11 years.



The Executive Group is comprised of Barry Spencer, Doug Curtis, Bruce Ratzlaff and Diane McMillan

PRODUCTS



Western Life's product line includes life, disability and critical illness insurance, group benefits and creditor insurance.

GROUP BENEFITS

The chart at left shows the importance of employer group benefit products.

This product group also includes employee benefit insurance plans offered in many businesses in Canada today, which encompass group life, dependent life, out-of-country emergency medical, extended health, dental, and short and long-term disability.



1



1. The oil and gas business is booming across WFG communities in Western Canada

2. Bank West's personal and corporate loans are offered through Whillis-Harding Agencies, Kelowna, for great toys like a boat on Lake Okanagan, BC

3. Our "Directors of First Impressions" make customers feel welcome in our offices.

4 Units of WFG specialize in P & C, group benefits insurance, and lease financing for such industries as transportation.

5 Professionals are a major market segment for group benefits and critcal illness products

3





Individual and Group Protection Products

Individual protection products include term life insurance, disability income insurance and critical illness insurance. Group protection products include accidental death and dismemberment and critical illness insurance.

Creditor Insurance Products

Creditor insurance products include life insurance, disability insurance and critical illness insurance marketed to insured debtors to reduce the credit risk associated with events such as death, disability or critical illness.

PRODUCT DISTRIBUTION

Geographical Areas

Western Life is licensed to carry on business in all Provinces and Territories in Canada. Current net premium revenues are reflected in the following graph.

DISTRIBUTION

WFG Agency Network

[illegible] able to all 54 offices in the Network, and an additional 25 licensed agents will be added to the sales force. It is expected that this expansion of retail av[illegible] will enhance revenues for Wester[illegible] products in 2005.

Existing Federated Life distribution

Approximately 81.1% of Federated Life's net premium revenues were generated by its captive agents who exclusively sold Federated Life's life and health insurance products. The sale of these products under Western Life will continue. These agents are dual-licensed (life/health and P&C insurance) and will continue to sell life and health insurance products for Western Life as part of the agreement. These agents operate throughout Canada, with a focus on Western Canada and Ontario.

DISTRIBUTION





QUICK STATS

Number of current full time employees	32
Average length of employment of full time employees	12years
# of authorized agents selling Western Life's @pprove products	2,355
Average "face amount" of life insurance	$166,000
Real Time @approve application to policy issuance process as little as	9mins
"Face amount" of individual insurance in force	$1,529,946,000

Independent Broker Distribution

Western Life has a market leading Internet-based insurance process called @pprove™. The system allows agents to enter applications on the web and it automates and streamlines the underwriting of the new business process. @pprove allows business to be processed in a fast, efficient manner that reduces customer waits often found in the industry, and it is currently used by 2,355 agents.

Program Business

Western Life also has arrangements with independent marketing partners who offer Western Life's specialty products such as accidental death, creditor and critical illness insurance for distribution. These partners develop large market opportunities for the products, while coordinating and executing the sales including ongoing client relationship management, and may provide policy administration.

OPERATIONS

Pricing, Liability and Loss Management

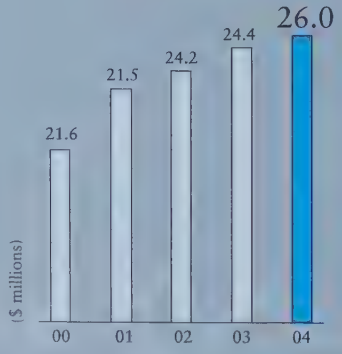
To establish accurate product pricing parameters, Western Life utilizes actuarial analysis on mortality and morbidity as well as current industry data. Profit margin targets are verified through financial modeling that employs industry standard projection tools. Western Life further verifies its product pricing assumptions through strategic partnering with its re-insurance partners.

CLAIMS

The Company's objective is to provide prompt and fair claims settlements to its customers, while controlling fraudulent claims and settlement expenses. Consequently it utilizes an experienced internal claims staff, which if necessary is supported by third parties such as re-insurance partners, medical experts, independent investigators and industry consultants.

The employer group health product line includes both health and dental point-of-service electronic claims adjudication. Western Life also has the benefit of a robust data processing service that monitors and manages all aspects of this high volume claims service.

GROSS REVENUES





1



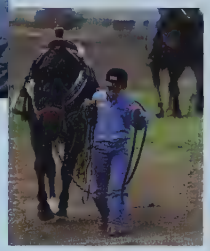
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3



4



5



6

1. Our offices support many different organizations in our communities, none more important than the local fire departments

2. Network offices are experiencing a continued growth in oil and gas related insurance, loans and group benefits, such as, service welders in Lloydminster AB and SK

3. Aliens are not yet insurable, even in our office in Vulcan, Alberta.

4. Calvin, one of our favourite people in High River, AB

5, 6. Bank West offers equipment leasing to farmers and ranchers in Western Canada

to some of our communities in the wake of closures of branches by some of Canada's larger banks was addressed in early 2001, when Western Financial Group applied for Bank West to become a fully Chartered Bank. In December 2002, it became the first start-up bank to receive a federal charter under new ownership rules following amendments to the Bank Act in 2001.

Bank West represented our entry into the manufacturing of products, which are sold through the Network as well as through third party distribution channels. It commenced operations in January 2003 and it has grown steadily since. Bank West currently employs 14 people in its office in High River, Alberta.

OUR FOUR KEY RATIOS

The bank monitors its success on four key ratios:

- Loan growth
- Net interest income
- Net earnings (expressed as an ROE)
- Credit Quality

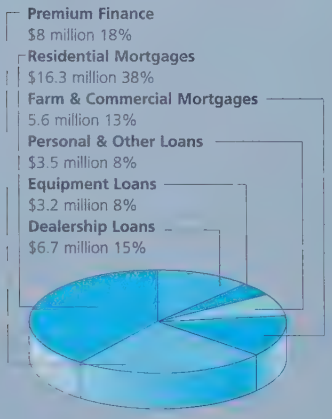
Bank West Executive Group: (left to right) Ron Munaweera, Doug Foster and Richard Brodeur

PRODUCTS AND SERVICES

Bank West offers guaranteed investment certificates (GIC's) with terms of 30 days to 5 years and loan products to its customers. These include residential, farm and commercial mortgages, insurance policy premium financing, personal loans and commercial equipment financing.

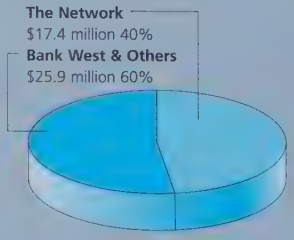
Bank West also has a dealer referral program to finance automobiles, recreational vehicles and boats. In addition, Bank West recently launched a credit line combined with a MasterCard for small businesses in conjunction with Wells Fargo. Bank West's loan portfolio, has grown to more than $43.3 million.

DISTRIBUTION OF LOANS



Bank West's products are distributed by third party distribution channels, including deposit, mortgage and loan brokers and dealers, as well as through the Network's branch offices. To date, distribution of Bank West products by the Network, particularly loan products, has been a vital component of Bank West's growth. As such, the Network represented $17.4 million or 40% of Bank West's total loans distributed, with the remaining 25.9 million being sold or distributed directly by Bank West and/or through third party distribution channels. The Network also distributed approximately $4.6 million or 9.0% of Bank West's outstanding GICs, with the remaining 81%, or $45 million, being distributed through third party distribution channels.

SOURCE OF LOANS



1



2



3



1. Bank West is represented by WFG Agency Network offices, drawing strength from "small town" western Canada

2. Bank West staff

3. A customer in Saskatchewan

4. "Here to help you". The banking staff at Bank West head office, High River, AB

5. Commercial loans are offered for businesses from Appliance Stores to Wineries

4





5

QUICK STATS

Number of full time employees	14
Total revenue growth (%)	231%
Total overhead growth	37%
Growth of Loan Portfolio	$27 M
Growth of Loan Portfolio (%)	164%
Growth in net interest income	134%
Gross impaired loans as a % of equity	0.04%

GROWTH TO PROFITABILITY

While the Bank is still in a start up mode, it is growing as expected through break-even to profitability, within the time projected. Trends in asset growth, net interest income and asset quality are each contributing to that goal.

RETURN ON TOTAL AVERAGE ASSETS



CREDIT QUALITY

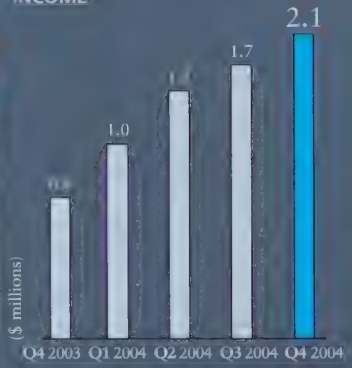
Provision for credit losses as a percentage of the year end loan portfolio was 0.62% in 2004 (0.49% in 2003). Gross impaired loans as a percentage of equity was less than 0.1% in 2004, well below

Canada's 6 largest banks). While de quency is low in relation to industry aver ages, there is a higher component a ciated with the premium finance loan portfolio. This is caused by a delay in receiving funds back from the insuranc company whose policy Bank West is financing to the customer, once the policy has been cancelled. Loans will often fall into "delinquency" pending receipt of these funds.

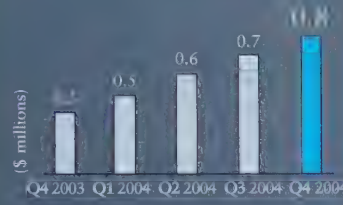
ACQUISITION AND GROWTH STRATEGY

Bank West's growth strategy is to continue to expand and develop its market penetration among the Network's customers. In addition, Bank West will continue to develop relationships with third party distribution channels, such as deposit, mortgage and loan brokers and dealers in Western Canada.

BANK WEST'S GROSS INTEREST INCOME



BANK WEST'S NET INTEREST



NOTE: For the trailing twelve months ended December 31, 2003; March 31, 2004; June 30, 2004; September 30, 2004; and December 31, 2004

Marlin Travel

OTHER SERVICES - MARLIN TRAVEL



1



2

QUICK STATS

Total number of passengers booked annually	13,000
Number of full time staff	16
Number of total calls handled each week	1500
Total gross travel sales annually	$8.3 million

In 51 Communities across the West, our offices are proud to contribute. The following represents a list of the great causes our offices support in their local communities:

- UNITED WAY
- FARMERS' GROUPS
- AG SOCIETIES
- SPORTS CLUBS AND TEAMS
  - -Soccer teams
  - -Hockey (Midget, Minor and Old Timers)
  - -Baseball/Softball teams
  - -Figure Skating
  - -Swim Clubs and pools
  - -Basketball teams
- KIDSPORTS
- BIG BROTHERS
- BIG SISTER
- CLUBS AND ASSOCIATIONS
  - -Rotary
  - -Shriners
  - -Kinsmen
  - -Elks
  - -Lions
  - -Optimists
  - -Odd Fellows
  - -Chambers of Commerce
- LOCAL CONSERVATION GROUPS
- SPECIAL OLYMPICS
- SUMMER AND WINTER GAMES
- HANDICAPPED ASSOCIATIONS
- HANDIBUS
- MUSIC FESTIVALS
- HEART AND STROKE FOUNDATION
- CANCER SOCIETY
- BETTER BUSINESS BUREAU
- FIREFIGHTERS
- STARS/EMERGENCY MEDICAL UNITS
- HOSPITAL FOUNDATIONS
- SPECIFIC FOUNDATIONS
- CRIMESTOPPERS
- NEIGHBOURHOOD WATCH/BLOCK PARENTS
- SENIORS HOMES
- SCOUTS AND GUIDES
- MUSIC FESTIVALS
- COLLEGE SCHOLARSHIPS AND BURSARIES
- CADETS
- LOCAL RECREATIONAL COMPLEX
- CITIZENS ON PATROL
- HABITAT FOR HUMANITY
- 4-H SOCIETY
- SUPPORT & DEVELOPMENT OF LOCAL ARTISTS
- LOCAL LIBRARY, CULTURAL CENTER AND COMMUNITY HALL
- CHARITY BONDSPIELS
- CHARITY GOLF TOURNAMENTS

Western communities foundation



3



4

1. With 6 locations in Alberta

2. Expertise and experience make travel worry free

3. Through the Foundations' support of Helping Hands, doctors can assist more in foreign lands.

4. The "Spoon" is a true Canadian hero. "Go Jeremy Go!"

5. Wall posters commemorating Canada's Fallen Heroes now hang in many of our communities in Western Canada





5

THE FOUNDATION

The local offices of Western Financial Group, WFG Agency Network, Western Life and Bank West actively support their communities in many ways, from small to large local activities including volunteering, donations and sponsorships. These individual efforts are essential in all communities.

But there is a need also for support of charities, events and causes which may be too large for any one office to sustain, but which nonetheless also help develop community pride, community infrastructure, and assists those in need even in foreign countries. To meet its needs in 2001 WFG formed The Western Communities Foundation (WCF).

In 2004, WCF continued several fund raising initiatives, including the annual WFG/WCF golf tournament, supported by all Network offices, insurance companies and suppliers.

Canadian Fallen Heroes

The Fallen Heroes program is a charitable institution that researches and commemorates those Canadians who gave their lives that we may have freedom, in the First and Second World Wars, in the Korean War, and in peace keeping activities. In many of the communities in which we do business all over western Canada, there are heroes who have been forgotten or overlooked by the passing of time. The program keeps their memory alive by researching their achievements, finding pictures and producing a framed poster which now hangs on many walls in numerous public places in our communities. By the end of 2004, 257 of a total of 520 such commemorative posters will have been produced from WCF's participation.

JEREMY WOTHERSPOON

It is hard to imagine that a fine, soft spoken athlete from Red Deer, Alberta is possibly the greatest speed skater of all time in the world. In a number of other countries he is a household name, and would be much more celebrated as a result. Jeremy skates for the love of the sport, and he is a true Canadian hero. WCF is proud to be able to continue the support it started in 2002 as a sponsor of a great athlete from one of our communities in western Canada.

SUPPORT FOR THE HELPING HANDS PROGRAM

Many specialists across our communities give of their time to travel to foreign countries to provide their expertise to help others on a voluntary basis. In 2004 WCF chose to support efforts to preserve eye-sight in developing countries, this time in Jamaica, by making a contribution to Canadian Vision Care. We will repeat this project again in 2005.

QUICK STATS

Total estimated Network annual volunteer hrs	5,400hrs (225days)
Available matching funds for local offices	$27,000
2004 profit from WFG/WCF Annual Golf Tournament Net	$20,500
Total Goal for fundraising all sources 2005	$99,500

Statement of Corporate Governance & Practices



The TSX has adopted guidelines for effective corporate governance. To implement these guidelines, the TSX requires that each listed corporation disclose its approach to corporate governance with reference to the stated guidelines. The guidelines address the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the recruitment, effectiveness and education of board members. The Corporation's board of directors has implemented practices consistent with the guidelines of the TSX. A description of the Corporation's corporate governance practices which specifically addresses the TSX's corporate governance guidelines, is set out below.

Board of Directors

The board of directors of the Corporation is responsible for the management of the Corporation. This responsibility includes:

1. Participation in the strategic planning process of the Corporation, including review and adoption of significant financing and operational plans and approval of major steps in the implementation of those plans as presented by management;
2. Consideration and review on a regular basis of the operations and risks of the Corporation including review of management reports and assessment of risks;
3. Consideration of succession issues and responsibility for appointment, remuneration and monitoring of senior management, through the Compensation Committee;
4. Reviewing and advising on the communications policy of the Corporation and its effectiveness in providing information to the various stakeholders of the Corporation; and
5. Directly and through the Audit Committee of the Board, regularly reviewing the Corporation's financial statements, assessing the integrity of the internal control and management information systems.

Composition of the Board

The board of directors of the Corporation currently consists of ten individuals, including the President and Chief Executive Officer of the Corporation, and one officer of a subsidiary of the Corporation, both of whom are considered related directors because of their management positions, and eight members of the Board who are independent of management. To ensure the board of directors functions independent of Management, the Corporation has a non-executive chairman of the board and its outside unrelated directors meet independent of management on a quarterly basis. All of the existing directors own Common Shares and some have options to purchase Common Shares of the Corporation. Ten directors are proposed for election at the Annual Meeting. The Board, considering its size and that of the Corporation, believes this number is appropriate.

Board Nomination

The board of directors has added to the responsibility of the Compensation Committee that of nomination of directors. Nominees for the board of directors are selected on the basis of individual attributes, including sound business judgment, integrity, ability to generate public confidence, business or professional activity and experience and knowledge of the industry. The Compensation Committee is composed exclusively of non-executive, unrelated directors. It has the responsibility of proposing to the full board of directors nominees to the board of directors, however, the entire board will be responsible for approving any nominees. The Compensation Committee is also responsible for assessing the board of directors as a whole, the committees of the board and the contribution of individual directors.

The Corporation has not adopted a formal process of orientation for new members of the board of directors; however, the limited number of appointments to the board of directors enables the Corporation to offer each director upon his or her appointment or election a personal introduction to the Corporation. New directors are provided with copies of recent Annual Reports and financial statements, recent director's minutes, and are provided with an opportunity to tour the Corporation's operations.

Recruitment of Directors

There are no formal procedures in place for recruiting new directors or to address other performance enhancing measures at this time. The size of the board of directors and the familiarity of all board members with the business of the Corporation are such that the directors believe that a less formal approach is adequate. The board of directors regularly evaluates its compensation for directors to ensure it is appropriate in light of the stage of developmentof the Corporation and the risks associated with being a director. Currently, outside unrelated directors receive an annual cash retainer, cash payment for meeting attendance, and granting of options annually.





Board Committees

The board of directors has established two committees, the Audit Committee and the Compensation Committee, which are comprised exclusively of outside, unrelated directors of the Corporation.

Audit Committee

The Audit Committee is comprised of four directors all of whom are independent of management. The Audit Committee reviews the annual and, quarterly financial statements, the MD&A of the Corporation, meets with the external auditors to review and consider audit procedures, and assesses the adequacy of the Corporation's internal controls and management information systems. The members of the Audit Committee have direct access to the external auditors of the Corporation and to the Corporation's financial officers. The term of reference of the Audit Committee and additional details concerning the Audit Committee is contained in the Corporation's annual information form.

Compensation Committee

The Compensation Committee is comprised of three unrelated directors all of whom are independent of management. The Compensation Committee is responsible for making recommendations to the board of directors relating to compensation and related matters and to assist the board of directors with its corporate governance practices. The compensation committee is also responsible for assessing the Corporation's response to the TSX corporate governance guidelines, including the disclosure to be included in the Information Circular of the Corporation.

Decisions Requiring Prior Board Approval

The board of directors is responsible for all major initiatives of the Corporation, including setting business plans, corporate strategies and annual budgets and revisions thereto. The President and Chief Executive Officer has been delegated the responsibility for the general management and direction of the business affairs of the Corporation, subject to applicable laws, the by-laws of the Corporation, and specific direction by the board of directors or any of its committees. Management reports to the board of directors at frequent intervals on major activities of the Corporation which have been addressed by management. The board of directors has an effective working relationship with management.

Shareholder Communications

Senior management of the Corporation, in consultation with the board of directors, develops and implements the communications policy of the Corporation. Shareholder communications, in particular the dissemination of financial information, are reviewed by the Audit Committee prior to public issue. Such communications are prepared by the Chief Executive Officer and the Chief Financial Officer who are responsible for the Corporation's compliance with all continuous disclosure and public reporting requirements and for keeping shareholders informed of the Corporation's status, financial and otherwise.

Expectations of Senior Management

The board of directors is involved in monitoring and assessing senior management through its regular contact with the management team, most of whom participate in presentations to the board of directors at their meetings. In addition, the Compensation Committee assesses the individual performance of the President and Chief Executive Officer and the other members of senior management as part of its compensation review process. At this stage of the Corporation's development, specific descriptions of management's duties and responsibilities and specific corporate objectives which the Chief Executive Officer is responsible to meet have been developed.

Engaging Outside Advisors

The board of directors continues to review its requirements and recommendation that a system be implemented which would enable an individual director of the board of directors or any committee thereof to retain outside advisors, from time to time subject to appropriate approvals.



FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our audited consolidated financial statements and related notes as at and for the years ended December 31, 2004, and 2003.

This management's discussion and analysis dated as of March 18, 2005 provides comments regarding our objectives, strategies, financial results, risk management and business outlook. Forward-looking statements involve numerous assumptions, risks and uncertainties, including the risk that prediction and other forward-looking statements may not prove to be accurate. We caution the reader not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from the estimates and comments expressed in them. Such factors may include, but are not limited to: changing financial and economic conditions in Canada, particularly in Western Canada; regulatory developments; competition, and our anticipated success in managing our risks. We caution readers that the foregoing list is not exhaustive. We do not undertake to update any forward-looking statements, written or oral, that we may make from time to time regarding our operations and performance.

The financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian GAAP. We use the term "operating income" to refer to earnings, including investment income, before interest expense, taxes, depreciation and amortization of intangible and capital assets, excluding gain (loss) from the sale of long-term assets and income (loss) from long-term investments. Although operating income and operating margin, each of which are discussed herein, do not have standardized meanings prescribed by GAAP, these measures are determined by reference to our financial statements. We discuss these measures as we feel that they are some of the key indicators of the performance of our business. Operating income is used to measure corporate performance before the costs of capital and amortization of capital and intangible assets. As we continue to make acquisitions, our amortization of intangibles will continue to increase along with interest costs on funds borrowed to finance the acquisitions. In order to evaluate our longer-term sustainable performance, our management believes that operating income provides a relevant measure of our actual performance.

We are a leading financial services organization with a focus on "small town" Western Canada (British Columbia, Alberta, Saskatchewan and Manitoba). Our primary business is the ownership and operation of the Network, which consists of 54 branch offices located in small cities, towns and villages across Western Canada and employs approximately 490 people. Through the Network, we are the fourth largest P&C insurance broker in Canada and the largest in Western Canada, according to the Insurance Journal and based on P&C insurance premiums sold in 2003. The Network's products and services, which are provided to more than 180,000 customers consisting of individuals and small to medium-sized businesses, include the distribution of P&C insurance (automobile, home, commercial and farm), banking products (deposits and loans), life insurance (term life and health) and investment products (mutual funds and other services).

We also operate other businesses that complement the products and services offered by the Network. We own Bank West, a Canadian chartered bank, which commenced operations in January 2003. Bank West provides GICs, loans, mortgages, insurance policy premium financing and other banking products, which are sold through the Network as well as through third-party distribution channels. We are involved in the investment business through our ownership of The Western Mutual Fund Company Ltd. ("WMFC"), a mutual fund dealer providing third party mutual funds and mutual fund services, including supervisory and processing services, to the Network. We also have a 29.3% equity interest in Jennings Capital Inc., a full service investment dealer headquartered in Calgary, Alberta.

During the year ended December 31, 2004, the Company strengthened the Network by acquisitions of the outstanding shares and certain assets of the insurance brokerage businesses of Barker Agencies Ltd., Fabian Insurance Services Ltd., Okotoks Insurance Ltd., Robinson Agencies (1980) Ltd., Page Agencies Ltd., and Bru Agencies Ltd.

To further enhance our product and service offering we acquired Federated Life Insurance Company of Canada on February 28, 2005. The acquisition substantially completes the integrated financial services product line that we have been building since 1996. Federated Life has been renamed Western Life Assurance Company.

Our principal markets are small cities, towns and villages in Western Canada. While each province in Western Canada has different growth dynamics and variables, according to the Conference Board of Canada, the three fastest growing provincial economies in 2004 measured by growth in real gross domestic product were in Western Canada, and it is predicting stronger growth in Western Canada in 2005, relative to the rest of Canada.

Our focus on small cities, towns and villages in Western Canada with similar demographics and economic drivers, provides certain advantages enabling us to:

- Efficiently integrate brokers that are located in communities similar to our current communities, minimize integration difficulties and maximize synergies;

- Tailor our product and service offerings and expertise to industries prevalent in our current communities (e.g. agriculture, energy and natural resources); and
- Emphasize our brand and marketing efforts with a strong regional and rural theme, which we believe is attractive to our customers.

Our strategic objective is to be the financial services provider of choice for individuals and businesses in small cities, towns and villages in Western Canada. In order to achieve our strategic objective we:

- Provide our customers access to a broad range of products;
- Leverage the Network to cross-sell complementary products and services;
- Provide industry-leading service in our core business;
- Expand our manufacturing platform opportunistically;
- Pursue additional Network acquisitions; and
- Build the "Western" brand.

We believe we are uniquely positioned in our principal markets due to the following competitive advantages:

- Scale in our core business;
- Acquisition and integration experience and expertise;
- A diversified and complementary product offering;
- Customer loyalty from our local presence; and
- Financial strength.

The P&C insurance brokerage industry is sensitive to changes in the P&C insurance industry as a whole. The P&C insurance industry is competitive and highly fragmented with approximately 100 private and government-owned insurers in Canada, with the top five private P&C insurers accounting for approximately 34.9% of the industry's private direct premiums written. In our management's view, this competition has indirectly resulted in P&C insurance companies requiring increased service and efficiency from brokers. The costs of meeting these requirements, which typically include the upgrade and maintenance of technology and information systems and the addition and training of staff, can be significant and are borne by the brokers. Many P&C insurers have also established minimum annual premium volumes as a condition to allowing brokers to distribute their products. We believe that a significant number of brokers are either unable or unwilling to meet these volume demands or increase their investments in their businesses and staff, leading to consolidation opportunities in the P&C insurance brokerage industry. We expect this consolidation trend to continue for the foreseeable future.

We believe that consolidation is the most efficient means of building a network in the fragmented P&C insurance brokerage industry in Canada. Accordingly, we actively search for brokers in small cities, towns and villages in Western Canada to which our management, financial resources, industry experience and marketing skills can be applied in order to enhance the profitability of the acquired business.

We have identified 159 communities in Western Canada for expansion over the next six to eight years and we estimate that there are approximately 475 brokers in these communities.

Bank West's growth strategy is to continue to expand and develop its market penetration among the Network's customers and to continue to develop relationships with third-party distribution channels, such as mortgage and loan brokers in Western Canada. While Bank West has grown its assets since inception, it is still in the early stages of its development. We do, however, expect Bank West to contribute income to our operations over time.

We view the ownership of both WMFC and Jennings as strategically important for building our long-term capability of selling mutual funds and other investment products to customers of the Network and Bank West.

Our management has identified certain key business drivers to assist it in managing and evaluating the progress of our business, especially the largest component of our business, the Network. These drivers consist of both financial and operational indicators. First, we use consolidated operating margin to analyze the efficiency by which we operate and run our business. Second, as we continue to add branch offices to the Network through acquisitions, it is important for us to track the revenues of the Network's existing individual branch offices, or same-store revenue change, from one period to the next. Third, as we continue to add new products through the sale of P&C insurance and the addition of financial service products through the Network, we expect the average number of products we sell to existing customers to increase. To analyze this, we track the average number of products per customer account. Fourth, we also track the Network's year-to-date annualized percentage change in same-store customer account increase. The table below shows our key business drivers.

Years Ended December 31,	2004	2003	2002	2001
Key Business Drivers:				
Consolidated operating margin (1)	19.0%	16.8%	17.4%	19.7%
The Network:				
Same-store revenue increase (2)	6.6%	13.8%	13.0%	6.0%
Average items per customer account (3)	1.67	1.51	1.46	1.42
Same-store customer account increase (4) (5)	4.0%	4.0%	2.0%	—

Notes:

(1) Consolidated operating margin is calculated by dividing our total operating income by our total revenue.

(2) Represents same-store revenue increase for the twelve months ended on the date indicated over the corresponding period in the prior year.

(3) The average number of products per customer account increased significantly in 2004 as a result of additional products sold to our existing customers, which we only started tracking in 2004.

(4) Represents year-to-date annualized increase.

(5) We did not start tracking same-store customer account increase until 2002.

Three-year Summary (In thousands)

	2004	2003	2002
Total revenues	42,243	32,666	27,912
Net Income	4,229	2,120	1,530
Earnings per share-Basic ($)	0.18	0.11	0.08
Earnings per share-Fully diluted ($)	0.16	0.10	0.08
Total Assets	156,809	116,323	79,644
Total Long-term Liabilities	57,974	31,070	20,951

Our financial results are divided into three reportable segments: P&C insurance brokerage (the Network), banking services (Bank West) and corporate and all other (which includes travel agencies, WMFC, and real estate assets but also includes contingent commissions of the Network).

Years Ended December 31	2004	2003
The Network		
Commissions and other customer revenue	$36,068	$29,456
Operating expenses	25,804	21,201
Operating income (1)	$10,264	$8,255
Bank West		
Net interest and investment income	$695	285
Operating expenses	1,528	1,080
Amortization of start up and reorganization	292	243
Operating loss (1)	$(1,125)	(1,038)
Corporate and all other		
Other revenues	$5,480	2,925
Operating expenses	6,456	4,344
Amortization of start-up and reorganization costs	151	318
Operating loss (1)	$(1,127)	$(1,737)
Total operating income (1)	$8,012	$5,480

Notes:

(1) Operating income is a non-GAAP measure we use to measure our corporate performance before the costs of capital and amortization of capital and intangible assets.

Year Ended December 31, 2004 compared to the Year Ended December 31, 2003

RESULTS OF OPERATIONS

Revenue

Total revenue increased by $9.6 million, or 29.3%, to $42.2 million compared to $32.7 in 2003. This was primarily a result of the increase in the Network's revenue, which grew by $6.6 million, or 22.4%, to $36.1 million in 2004, compared to $29.5 million in 2003. This was due to growth in same-store revenue of 6.6%. In the fourth-quarter of 2004 same store revenues decreased by 1.8% as a result of automobile insurance reform, in Alberta which retroactively reduced insurance premiums for personal automobile insurance rates. It was also due to growth in sales of financial services products in the branch offices of 24.5%. Acquisitions made in the fourth quarter of 2003 and in 2004 accounted for approximately $5.1 million of the increase in revenues. The Network's basic commission revenue also increased by $6.6 million, or 24.3%, to $33.8 million in 2004 compared to $27.2 million in 2003.

Bank West's gross interest income increased by $1.5 million, to $2.2 million in 2004 compared to $643,704 in 2003 (eleven months of operations). Customer deposits more than doubled to $49.6 million in 2004 from $20.7 million in 2003 which drove interest and commission expense higher by $695,444. As a result, Bank West's net interest income increased by $1.0 million to $1,297,323 in 2004 compared to $294,449 for 2003 (eleven months of operations). Mortgages and other loans more than doubled to $43.4 million in 2004 from $16.3 million in 2003. Furthermore, the introduction of dealership loans increased the loan portfolio by $12.4 million in 2004.

Revenue from our corporate and all other segment increased by $2.6 million, or 87.3%, to $5.5 million in 2004 compared to $2.9 million in 2003. A significant portion of the increase was due to contingent commissions received, which increased $1.8 million, or 91.1%, to $3.9 million in 2004 compared to $2.0 million in 2003. This improvement reflected the increased profitability of the business placed with our P&C insurance providers. We also realized an increase in investment and interest income of $159,968 from cash balances in connection with the private placement of Common Shares completed in 2004, which was offset slightly by the reduced dividend income from our smaller preferred share portfolio in 2004.

Operating Expenses

Total operating expenses increased by $7.2 million, or 26.9%, to $33.8 million in 2004 compared to $26.6 million in 2003, primarily due to salaries and wages expense, which was 52.6% of our total revenue for 2004 compared to 52.8% in 2003. Our salaries and wages expense was kept under control through monitoring monthly reports and reflects the general industry trend of expense margin reduction.

Operating expenses in the Network increased $4.6 million, or 21.7%, to $25.8 million in 2004 compared to $21.2 million in 2003, as a result of new acquisitions and the increase in

activity levels as a result of new business. New acquisitions increased operating expenses by approximately $2.8 million and salaries and wages expense for existing operations increased by $1.4 million. The Network's salaries and wages expense averaged 50.0% of the Network's revenues in 2004 compared to 49.7% in 2003. The balance of the increase in operating expenses related to rent and communication costs, which are two of the key expenses of the Network.

Bank West's operating expenses increased by $447,716, or 41.5%, to $1.5 million in 2004 compared to $1.1 million in 2003 (eleven months of operations). The increase in general operating expenses was consistent with the growth of the operation. Bank West's salaries and wages expense increased by 55.5% or $318,404 due to increased staffing levels and the accrual of management bonuses. The provision for loan losses increased by $111,198, which is due to mortgage and loan asset growth that more than doubled to $43.4 million. This provision reflected our management's best estimate of the losses inherent in the portfolio at the balance sheet date, and the increase in the period reflected the underlying growth of the portfolio of mortgages and loans, and was not due to a deterioration of the credit quality of the portfolio.

Corporate and all other segment expenses increased $2.1 million, or 48.6%, to $6.5 million in 2004 compared to $4.3 million in 2003. Additional management and accounting staff accounted for approximately $250,000 of the overall increase. Additionally increased performance bonuses accrued were approximately $510,000 and one-time costs of $71,796 for expenses related to potential acquisitions we chose not to complete. We had an increase in our insurance costs of $124,829 due to additional coverage and pricing increases and increased printing and mailing costs in connection with our compliance with PIPEDA, which required us to issue a privacy policy letter and brochure to our customers. The balance of the increase is attributable to our normal operating expenses growing in line with our business.

Amortization of start-up and reorganization costs decreased by $118,684, or 21.1%, to $442,598 in 2004 compared to $561,282 in 2003, largely due to the decrease in the amortization costs incurred with the branding of our operations in 2002 that was no longer amortized in 2004. Excluding the $292,301 incurred in 2004 for the start-up of Bank West and the $243,412 incurred in 2003, amortization of reorganization costs decreased 52.7% in 2004 compared to 2003.

Operating Income

The Network increased its operating income by $2.0 million, or 24.3%, to $10.3 million in 2004 compared to $8.3 million in 2003. These results were partially offset in both years by operating losses in Bank West and the corporate and all other segment that collectively totaled $2.3 million in 2004 and $2.8 million in 2003. This resulted in an overall increase in operating income of $2.5 million, or 46.2%, to $8.0 million compared to $5.5 million in 2003. Our operating margin increased to 19.0% in 2004 compared to 16.8% in 2003. The Network's margins improved through sales of additional products and Bank West increased its revenues to support the fixed expenses of its operations, both of which contributed to our overall growth in operating margins while corporate experienced increased contingent commissions.

Other Expenses

We recorded a one-time charge of $669,963 ($475,674 after tax) associated with legal and other costs related to a claim we had filed against Montreal Trust. During the year we received a judgment in favor of Montreal Trust. We have determined that there is sufficient basis upon which to file an appeal. As the outcome of the appeal is not determinable, the costs incurred to date have been recorded as an expense in the current year. Any recovery of costs as a result of the appeal will be recorded in the year recovered.

We recorded a one-time loss of $94,467 ($73,920 after-tax) on the sale of assets in 2004 compared to $37,277 ($27,771 after-tax) in 2003 on the sale of assets as a result of purchase adjustments made to prior years' dispositions that could not be estimated at the time of sale.

Interest and financing costs declined $88,945, or 6.1%, to $1.4 million in 2004 compared to $1.5 million in 2003, which was partly due to reduced interest expense on our preferred share portfolio margin account. In addition, the holders of our 9.0% subordinated convertible redeemable debentures (the "9.0% convertible debentures") converted $363,000 of these debentures into 145,200 Common Shares and we purchased and subsequently cancelled $135,700 of our 9.0% convertible debentures pursuant to our normal course issuer bid, which collectively resulted in reduced interest costs in 2004 compared to 2003.

Amortization of intangible assets increased $87,463, or 66.1%, to $219,849 in 2004 compared to $132,386 in 2003 as a result of the increase in the amount of intangible assets from $4.2 million in 2003 to $7.1 million in 2004, as a result of acquisitions completed in 2003 and in 2004.

Amortization of capital assets increased by $125,368, or 13.5%, to $1.1 million in 2004 compared to $926,731 in 2003 due to the addition of $3.7 million of new capital assets and assets related to acquisitions. Our additions from the year come from the purchase of office facilities, leasehold improvements, and furniture and computer equipment for new and existing staff.

Income taxes increased $578,855, or 51.7%, to $1.7 million in 2004 compared to $1.1 million in 2003 primarily due to increased operating income for the period. Our effective tax rate, however, decreased to 28.7% in 2004 from 34.6% in 2003 due to the increase in income from our long-term investments. We also saw a decrease in the statutory tax rate to 33.9% from 37.6%.

Net Income

Net income increased $2.1 million, or 99.5%, to $4.2 million in 2004 compared to $2.1 million in 2003. This increase was primarily due to the increase in our operating income as well as our equity investment in Jennings, which contributed $1.3 million to net income in 2004 compared to $316,308 in 2003.

Other paid in capital, net of income taxes, decreased $29,118, or 3.7%, to $767,577 in 2004 from $796,695 in 2003 due to a change in the tax rate. The increase in other paid in capital reflects costs of capital associated with convertible debentures issued by us. When issuing convertible debentures that provide for settlement in Common Shares, GAAP requires that the principal portion of the debentures be included in equity. This reflects our intention to convert this debt into equity in the future. Our commitment to make cash interest payments over the life of the debenture is recorded as a liability. Annual interest charges paid on the debenture are allocated between interest expense and equity. The charge to equity is considered comparable to a dividend that would be paid if the equity component of the debenture were Common Shares.

SELECTED QUARTERLY FINANCIAL INFORMATION

For the Quarters Ended—2004	March 31	June 30	September 30	December 31
(In $ thousands except per share amounts)				
Total revenue	$8,997	$10,737	$10,772	$11,737
Net income	838	1,173	794	1,424
Earnings per share				
Basic	$0.04	$0.06	$0.03	$0.05
Diluted	$0.04	$0.04	$0.03	$0.05

For the Quarters Ended—2003	March 31	June 30	September 30	December 31
(In $ thousands except per share amounts)				
Total revenue	$6,744	$9,232	$8,103	$8,607
Net income	124	835	518	613
Earnings per share				
Basic	$0.00	$0.06	$0.03	$0.02
Diluted	$0.00	$0.05	$0.02	$0.03

For the quarter ended December 31, 2004, the Company's fourth quarter, we generated revenue of $11.7 million, net income of $1.4 million, and earnings per share of $0.05. This compares to revenue of $8.6 million, net income of $612,855 and earnings per share of $0.02 in 2003. The fourth quarter increase over 2003 is due primarily to new acquisitions and the increase in contingent commissions.

Year Ended December 31, 2003 compared to the Year Ended December 31, 2002

RESULTS OF OPERATIONS

Revenue

Total revenue increased by $4.8 million, or 17.2%, to $32.7 million in 2003 compared to $27.9 million in 2002. This was primarily a result of the increase in the Network's revenue, which grew by $4.2 million, or 16.6%, to $29.5 million in 2003, compared to $25.2 million in 2002. The increase in the Network's revenue was due to growth in same-store sales of 13.8% and the inclusion of a full-year's worth of revenue from acquisitions made in 2002 as well as the contribution of acquisitions made in 2003, which collectively accounted for approximately $874,000 of the increase in revenues. The Network's basic commission revenue increased by $4.3 million, or 18.5%, to $25.7 million in 2003 compared to $23.7 million in 2002.

Bank West's gross loan interest income was $660,044 in 2003, which was its first year of operation (11 months). Bank West's net interest and investment income was $285,303 which reflected $294,449 in interest paid and accrued on customer deposits and $80,292 for provision for credit losses.

Total revenue from our corporate and all other segment increased by $392,506, or 14.6%, to $3.1 million in 2003 compared to $2.7 million in 2002. The main reason for the improvement was that contingent commissions increased by 53.8% to $2.0 million in 2003 compared to $1.3 million in 2002. This was offset by revenue from our investments held at the corporate level, which decreased by $23,263, or 7.1%, to $302,848 in 2003 compared to $326,111 in 2002. This decrease was a result of a decrease in our preferred share investment portfolio by $3.4 million due to our management's decision to divest certain holdings representing 15.6% of our overall investment portfolio.

Operating Expenses

Operating expenses increased by $3.8 million, or 16.9%, to $26.6 million in 2003 compared to $22.8 million in 2002 primarily due to an increase in salaries and wages expense associated with the addition of new employees resulting from our acquisitions and increases in performance bonuses paid to our management.

Operating expenses in the Network increased $1.9 million, or 9.8%, to $21.2 million in 2003 compared to $19.3 million in 2002, as a result of higher costs associated with integrating certain acquisitions and the salaries and wages expense associated with acquisitions. Salaries and wages expense of the Network improved to 49.6% of the Network's revenues in 2003 compared to 51.6% in 2002.

Bank West's operating expenses were $1.1 million during its first year of operation (11 months), and were consistent with our management's expectations. Similar to the Network, salaries and wages represented the largest expense for Bank West and represented 86.9% of Bank West's revenues in 2003.

Corporate and all other segment expenses increased $987,702, or 28.4%, to $4.5 million in 2003 compared to $3.5 million in 2002. Corporate salaries and wages expense increased by 45.2% in 2003 compared to 2002, of which 25.8% was a result of the hiring of additional staff. These included a Chief Information Officer and Director of Systems and Infrastructure, who were necessary hires in order for us to properly manage our growth. However, corporate staffing remained constant at 4.0% of our total employees in 2003. The accrual of bonuses for both our management and the Network's managers also contributed to the increase.

Amortization of start-up and reorganization costs increased by $286,071, or 103.9%, to $561,282 in 2003 compared to $275,211 in 2002, largely due to amortization of start-up costs for Bank West, which were only incurred starting in 2003. Excluding the $243,412 incurred in 2003 for the start-up costs of Bank West, amortization of reorganization costs increased 15.5% in 2003 versus 2002. This increase was due to the full-year amortization of the branding costs incurred in 2002 and the final amortization of certain start-up costs pertaining to our travel and special risks divisions.

Operating Income

The Network increased operating income by $2.4 million, or 40.7%, to $8.3 million in 2003 compared to $5.9 million in 2002. These results were partially offset in both years by operating losses in Bank West and the corporate and all other segment that collectively were $2.8 million in 2003 and $1.1 million in 2002. This resulted in an overall increase in total operating income of $647,400 or 13.3%, to $5.5 million in 2003 compared to $4.9 million in 2002. Our operating margin decreased slightly to 16.8% in 2003 compared to 17.4% in 2002. Although our revenues grew by 17.1% in 2003, this was offset by a large rise in our operating expenses of 16.9%. One of the main reasons for the flat operating margin was the additional salaries and wages expense associated with the introduction of complementary financial products and services in the majority of the Network's branch offices.

Other Expenses

We recorded a one-time loss of $37,277 ($30,269 after-tax) in 2003 on the sale of long-term assets stemming from purchase adjustments made to prior year's dispositions that could not be estimated at the time of sale. We also realized a one-time gain on the sale of assets of $208,344 ($169,854 after-tax) in 2002.

Interest and financing costs declined $333,209, or 18.6%, to $1.5 million in 2003 compared to $1.8 million in 2002, largely due to a decrease in the amortization of financing costs of $219,741 in 2003 compared to 2002. In 2002, we accelerated our amortization of certain deferred financing costs associated with our old credit facility, when we entered into a new credit facility. The balance of the savings during 2003 was largely due to a reduction in our interest costs on our 9.0% convertible debentures as our obligation to make interest payments ceased when our debenture holders converted their holdings into Common Shares. In 2002 we also completed an issuer bid and acquired $5.4 million of our 10.0% subordinated convertible redeemable debentures (the "10.0% convertible debentures") in exchange for 9.0% convertible debentures issued to the holders.

Amortization of intangible assets increased $57,386, or 76.5%, to $132,386 in 2003 compared to $75,000 in 2002 as a result of the increase in intangible assets from acquisitions in 2003 of $889,294 and the annualized amortization for the intangible asset increase in 2002 in the amount of $2.8 million.

Amortization of capital assets increased by $129,001, or 16.2%, to $926,731 in 2003 compared to $797,730 in 2002 primarily due to new capital asset purchases and amortization as a result of acquisitions completed in 2003. In addition, during 2003 we purchased land and developed buildings for two Network branch offices and continued to complete leasehold improvements throughout the Network. We also purchased new computer equipment to support additional employees whom we gained through acquisitions.

Income taxes increased $296,215, or 35.9%, to $1.1 million in 2003 compared to $824,447 in 2002 primarily due to increased income. Our effective tax rate, however, decreased to 34.6% in 2003 from 35.0% in 2002 due to the increase in income from equity investments from a loss of $40,808 in 2002 to a gain of $296,308 in 2003 as well as the decrease in the statutory tax rate to 37.6% from 40.5%.

Net Income

Net income increased $589,502, or 38.6%, to $2.1 million in 2003 compared to $1.5 million in 2002. This increase was primarily due to new business, premium increases, acquisitions and improved contingent commissions. In addition, our equity investment in Jennings increased our net income by $296,308 compared to a net loss of $40,808 in 2002. Our interest and financing costs on long-term debt also decreased by $333,209 in 2003 compared to 2002. These improved results were partially offset by Bank West's after-tax loss of $701,289 in 2003.

Other paid in capital, net of income taxes, increased $176,617, or 28.5%, to $796,695 in 2003 from $620,078 in 2002. Repurchasing $5.4 million of our 10.0% convertible debentures in 2002 in exchange for 9.0% convertible debentures resulted in an increase in other paid in capital, net of income taxes. The increase in other paid in capital reflects costs of capital associated with convertible debentures issued by us.

Liquidity and Capital Resources

Total shareholders' equity as at December 31, 2004 was $64.7 million, or 25.3% higher than at December 31, 2003. On January 21, 2004, we obtained $4.5 million of new financing through the private placement of 1,819,463 units. Each unit consists of one Common Share and one-half of one Common Share purchase warrant. Each whole Common Share purchase warrant entitles the holder to acquire one Common Share at a price of $2.90 per Common

Share for a period of two years from the date of issue. We also closed private placements of 400,000 Common Shares and 1,700,000 Common Shares, at a purchase price of $2.50 per share, for aggregate gross proceeds of $5.3 million on June 9, 2004 and August 13, 2004, respectively.

We expect our capital resources will be sufficient to satisfy our financial requirements, which include business acquisitions and capital expenditures. Capital resources include cash, funds raised through the private placements, available senior bank debt and funds generated from operations.

We have a credit facility of $15.0 million negotiated with the Bank of Montreal. As at December 31, 2004, $12.0 million of this facility had been utilized. Pursuant to the terms of this credit facility, we make monthly loan payments of $121,657 plus interest. Repayment of the credit facility is dependent upon annual renewal. In the event the Bank of Montreal elects not to extend the initial period, the facility will convert to a two-year committed term facility for all amounts due thereunder. In March 2003, we entered into an interest rate swap agreement exchanging $8.0 million of floating rate debt for a fixed rate of 6.225%. This debt requires interest payments only. The swap agreement expires May 2008. At December 31, 2004 we were in compliance with the financial covenants of our senior credit facility.

At December 31, 2004, we also had a total of $15.0 million in subordinated convertible redeemable debentures due 2009 and 2010. At this time we are not in a position to force conversion or planning to pursue early redemption of these debentures.

At the close of 2004 we had $11.0 million of subordinated convertible redeemable debentures outstanding with interest payable semi-annually at 9% per annum. These debentures are convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of $2.50. The debentures are due February 2007. The Company may redeem the debentures at par any time after February 2005 if the twenty-day weighted average trading price of our shares is not less than $3.10 per share.

At December 31, 2004 we had cash and cash equivalents of $12.3 million as compared to $14.4 million at December 31, 2003. Operations contributed $2.5 million as compared to $5.9 million in 2003. In 2003 improvements in the management of accounts receivable and accounts payable contributed cash to operations. We continue to follow these same principles and have maintained a consistent ratio of accounts payable to accounts receivable of 1.2 to 1. Cash used in investing activities was $39.0 million in 2004 as compared to $28.7 million in 2003. We increased our investments in marketable securities and our investment in Jennings, along with having deposits of $1.4 million for future acquisitions, which included Federated Life. We paid $8.3 million to acquire six insurance brokerages for the Network, and $896,337 to acquire a loan portfolio at Bank West. In addition we acquired $3.7 million of capital assets. We increased our use of cash to fund mortgages and loans by $26.3 million in 2004 as compared to $16.3 million in 2003. In 2004 $34.4 million was provided in financing activities with $28.9 million from customer deposits at Bank West used to fund mortgages and loans. We received net proceeds from the issuance of common shares as previously detailed. Finally we made repayments of $2.7 million on our senior credit facility.

Contingent Obligations

In the normal course of business Bank West issues commitments to extend credit to customers which are not recorded in the financial statements. These commitments which are undrawn at year-end are in the form of loans for specific amounts and maturities subject to meeting certain conditions and have no stated expiry dates. The maximum potential amount of future payments under these commitments is $1,507,272 (2003 - $2,997,378).

The company is committed to the following annual property lease payments, long-term debt payments, and capital lease payments between 2005 and 2009.

	Property Leases	Long-Term Debt	Capital Leases
2005	$1,064,700	$2,676,200	$16,800
2006	961,500	2,676,700	16,800
2007	735,800	1,660,500	7,000
2008	562,400	8,330,000	
2009	367,000	82,000	

Transactions with Related Parties

Related parties include directors, officers and their related companies. The prices and term of transactions with related parties are in accordance with normal business practice and recorded at the exchange amount.

Commissions of $2,910 (2003 - $3,680) were paid to Jennings Capital Inc., an affiliated Company in which a director holds an interest, for management of the Company's marketable securities, and interest of $2,152 (2003 - $59,867) in respect of the investment margin loan described.

Dividends income on preferred shares of $1,023,428 and income from equity investments of $299,237 were accrued with respect to our investment in Jennings Capital Inc.

Interest income of $30,995 was received from notes receivable with respect to our investment in Jennings Capital Inc.

Management fees of $18,000 (2003 - $16,500) were paid and interest income of $11,150 (2003 - $22,400) was earned on a loan to a Company controlled by the chief executive officer of the Company.

Dividends on preferred shares in the amount of $12,000 (2003 - $12,000) were accrued to a company controlled by a director.

Consulting fees of $42,040 (2003 - $29,173) were paid to a Company in which a director holds an interest for the due diligence of acquisitions.

Accounts receivable includes $98,192 (2003 - $60,348) from Western Communities Foundation, a private foundation that is related to the Company.

The Western Mutual Fund Company is able to share certain officers and staff with Jennings Capital Inc. It has accrued $111,514 in shared costs which is payable to Jennings Capital Inc.

Subsequent Events

On February 28, 2005 the Company closed the acquisition of Federated Life Insurance Company of Canada for an aggregate purchase price of $20 million. The Company used net proceeds of $20.8 million raised from its public offering of subscription receipts to fund the acquisition. In connection with the completion of the acquisition, the Company issued 10,350,000 common shares upon conversion of the issued and outstanding subscription receipts.

The Company issued $1,000,000 in unsecured subordinated demand debentures subsequent to year-end. Jennings Capital Inc. received a commission of $50,000 on placement of this debenture.

Outstanding Share Data

At December 31, 2004 the balance of issued common shares was 20,273,998, for a total value of $39,267,208. In connection with a private placement completed in 2003 we issued 2,290,545 warrants. We had a second closing in 2004 and issued an additional 909,732 common share purchase warrants for a balance at December 31, 2004 of 3,200,277 common share purchase warrants. These warrants may be exercised at a price of $2.90 for one common share, expiring December 2005.

In 2004 we acquired, through our Normal Course Issuer Bid 189,600 common shares for cash consideration of $379,079 and cancelled the shares. The excess of the cash consideration over the assigned value of the share is recorded as a charge to retained earnings. We further cancelled 61,718 common shares held in escrow which where issued in 2000 as consideration in business acquisitions with approvals from the Toronto Stock Exchange.

We have a fixed stock option plan under which we may grant options to directors, officers, shareholders and consultants for up to 10% of the issued and outstanding shares to an aggregate maximum of 1,600,000 common shares. We granted 132,000 options in 2004, and cancelled 120,000 leaving 569,000 options outstanding at December 31, 2004 of which 487,000 were exercisable and 1,031,000 are available for grant.

Critical Factors Affecting Results

The level of revenue and earnings from our operations depends on several factors including basic commission levels paid to us for the sale of P&C insurance products, the amount of contingent commissions paid by our main P&C insurance providers, our ability to sell additional financial products and services to the existing customer base of the Network, returns on our corporate and financial investments and our ability to control and manage expenses.

Revenue

The most significant element of our revenue is the receipt of basic commissions from our P&C insurance providers. Basic commission levels vary by province and product but generally range from 5.0% to 20.0% of the premiums written and are typically paid at a rate of 12.5% for premiums sold for automobile insurance and 20.0% for premiums sold for property and liability insurance. As part of our overall agreements with our larger P&C insurance providers, we have negotiated various levels of contingent commissions, which are based on previous years' business written with that particular P&C insurer and are usually determined by profitability and volume.

Although our main source of revenue is from the Network's sale of P&C insurance products we also generate revenues from several other sources. Sales of Bank West products and agency banking products such as GICs, loans and mortgages have been growing rapidly and are becoming a meaningful source of revenue. Furthermore, the Network's sales of complementary financial products and services such as banking products, life and health insurance products, group benefits, mutual funds and investment products also continue to grow.

Expenses

Our expenses consist primarily of salaries and wages expense (which include benefits and bonuses) of our staff as well as overhead and administrative expenses. As our single largest expense is employee salaries and wages, any significant changes in this area will have a meaningful impact on our overall expenses. The largest portion of our expenses relate to operating the Network. We monitor the Network's expenses through local budgets that are set by each branch office and on a geographic basis. These expense budgets are approved by our senior management and are monitored on an ongoing basis. As the Network is a broker, it does not bear any expense as a result of a customer making an insurance claim. The financial impact of insurance claims is a potential decrease in the contingent commission paid to us. However, as contingent commissions are paid to us based on the aggregate number of policies placed with a P&C insurer, only a very large individual loss could impact the overall contingent commission paid.

Investments

Our interest in Jennings has produced annual returns, which have added to our earnings.

Regulation

The industries in which we operate are regulated for the sale of all P&C insurance, banking products, life and health insurance products, mutual funds and investments. Changes in these regulations may significantly affect our operations and financial results.

Critical Accounting Estimates and Assumptions

Our consolidated financial statements are prepared in accordance with Canadian GAAP as further described in Note 2 of our audited financial statements. These accounting polices require our management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements, and income and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to the allowance for loan losses, assessment of impairment of goodwill, the useful life of intangible assets, allocation of purchase price of an acquisition to goodwill and intangible assets, allowance for policy cancellations of commission revenue and stock-based compensation, and future income taxes. Estimates are based on our management's experience, terms of contracts and policies, observation of industry trends and information provided by outside sources. These estimates are more fully discussed below.

Mortgages and Loans

Bank West has a general allowance for loan losses for the portfolio of mortgages and loans that it provides to individuals and businesses, which is estimated using industry knowledge of similar loan portfolios. The general allowance is based on an assessment of existing economic and portfolio conditions which will change over time. The general allowance is re-assessed monthly and fluctuates as a result of changes in portfolio volumes, concentrations and risk profile and analysis of evolving trends. Changes in this estimate will impact the net interest income portion of revenue reported by Bank West.

Goodwill

Goodwill represents the excess of consideration paid over the fair value of net tangible and intangible assets acquired in business acquisitions and related costs of acquisition. Goodwill is not amortized, but is tested for impairment on an annual basis by comparing the fair value of each reporting segment to its book value. The fair value of a reporting segment is estimated using revenue and earnings multiples that have been observed in the relevant industry. In 2004, an independent valuation confirmed that the valuation principles used were accurate and that there was no impairment to goodwill recorded in the financial statements.

Intangible Assets

Intangible assets in respect of purchased customer contracts and related customer relationships are being amortized on a straight-line basis over the estimated life of the asset. We have relied on our past experience with respect to customer retention in determining a 30-year life for purchased customer contracts and the related relationships. Customer retention rates may change over time based on competition in our markets. Any changes in retention rates would result in changes to the useful life and annual amortization expense. We annually assess whether the life of the intangible asset is appropriate as well as for impairment by comparing the carrying amount to its fair value.

Allocation of the Purchase Price of an Acquisition

Acquiring businesses that are competing with our existing businesses is a fundamental component of our growth strategy. When we acquire a business, the purchase prices allocated to the assets acquired and the liabilities assumed are based on their fair values. Any excess of purchase price over identified assets is allocated to goodwill. The fair value of assets, including intangible assets, is determined using valuation methods including net realizable value and discounted cash flows. The use of assumptions, which are based on our management's judgment, is inherent in the application of these valuation methods. The use of different judgments, estimates and valuation methods may result in different allocations of the purchase price and, as a result, different results of operations.

Revenue Recognition

P&C insurance commission revenue is recognized when the P&C insurance policy sold is in place and the amount of the commission earned is determinable. Contingent commissions are recorded when amounts can be determined and are recognized when they are earned. The determination of contingent commissions is based on estimates received from P&C insurance companies and may vary from actual amounts received. Commission revenue is reported net of an allowance for commission losses that may be incurred if a policy is cancelled.

Revenues from banking operations are classified as net interest income with revenue recognized in the period earned.

Investment income represents excess working capital that is invested in preferred shares and short-term deposits. Investment and interest income consists of dividends earned and gains (losses) realized on the sale of these preferred shares and interest earned on these deposits.

Changes in Accounting Policies

Revenue Recognition

Effective January 1, 2004, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to revenue recognition. Under the new recommendation the Company provides for an allowance with respect to expected losses that may be incurred if customers cancel their insurance policies.

This change has been applied retroactively and the following amounts restated as follows:

	Calculated in accordance with previous policy	Restated
December 31, 2004		
Commission revenue	41,179,886	41,116,517
Income tax expense	1,714,123	1,699,517
Allowance for cancellations	-	294,671
Future income taxes	537,680	527,662
December 31, 2003	-	
Commission revenue	32,131,498	32,097,872
Income tax expense	1,129,150	1,120,662
Allowance for cancellations	-	231,302
Future income taxes	570,900	485,318
Retained earnings, end of year	3,319,166	3,173,446

Stock-based Compensation

Effective January 1, 2003, the Company changed its method of reporting stock based compensation to the fair value based method. This change in accounting policy has been applied prospectively to options issued after January 1, 2003.

Effects of Recent Accounting Pronouncements

Effective January 1, 2005 the Company will adopt the new guidelines contained in the CICA Handbook dealing with accounting for convertible debt instruments. The guidance provides that where a convertible debt instrument is convertible at the holder's option, or may be settled in shares by the issuer, only that portion of the instrument attributed to the conversion option would be recorded as equity. Previously the Company recorded the principal portion that could be settled in shares as equity. The effect of this change will be to reclassify $17 million from other paid in capital to long term debt and to report amounts previously reported as a charge to retained earnings in respect of the increase in other paid in capital as interest expense. This change will not have an impact on earnings per share.

Risks Inherent in Our Business

Effective risk management is fundamental to our ability to protect the interest of our shareholders and is required in order to comply with various regulatory requirements applicable to our operations. Our management oversees and manages our risk along with oversight and advice from both our audit and risk committee and that of Bank West. We perform an analytical review of our operations during our quarterly reviews and involve every level of our management in our monthly reporting. With the addition of Federated Life, we intend to include management and the audit and risk committee of Federated Life in the same monthly and quarterly regime that we are currently performing.

Contingent Commissions

Many P&C insurance companies pay us contingent commissions for achieving profitability and premium volume goals set by them and/or based on the loss experience of the insurance we place with them. We generally receive contingent commissions in the first and second quarters of each year in respect of contingent commissions earned in the previous year. However, we have no control over the ability of P&C insurance companies to estimate loss reserves, which is a factor that affects the amount of contingent commissions that we will receive. In addition, because no significant incremental operating costs are incurred when contingent commissions are realized, a significant decrease in contingent commissions can cause a disproportionate decrease in net income and would consequently have a negative impact on our financial results.

The P&C insurance brokerage industry has noted several recent developments related to the use of contingent commissions and related arrangements, including the filing of lawsuits most recently by the New York Attorney General against certain insurance brokers and the issuance of audit letters by the New York Insurance Department.

In October 2004, the Canadian Council and the Canadian Insurance Services Regulatory Organizations announced that they had established a committee to ensure a co-ordinated national approach to regulators' review of insurance practices regarding the relationship between insurance companies, brokers and other intermediaries. The Ontario government has also initiated a review of the payment of commissions. P&C insurance industry operating policies and practices may be impacted by these developments, as well as recent developments in the United States. In addition, the Ontario government announced that it had reached an agreement in principle with the P&C insurance industry, whereby P&C insurers and brokers in Ontario will voluntarily improve disclosure of both basic and contingent commission payments. On November 12, 2004, the IBC revealed details of a plan to provide enhanced clarity and access to information regarding P&C insurance sales and service in Ontario. The components of the plan are:

- The creation and distribution of a code of consumer rights and responsibilities that outlines all P&C insurance consumer rights and responsibilities, which will be posted on all P&C insurance company websites and will be included with new policies and renewal offers for all lines of P&C insurance.
- The commitment of P&C insurance companies to disclose their financial and compensation arrangements with intermediaries on their websites, including whether intermediaries are paid a salary or commission, the range of basic commissions paid, and the range of any contingent commissions. P&C insurance companies will also post information on the kinds of financing and ownership links they may have with brokers and agents.

- The introduction of the new point of sale protocol for disclosure of broker commissions This protocol outlines information that brokers are to include in disclosure statements they give to their clients. They will include the basic commission range for P&C insurers they represent, and will identify which P&C insurers recognize sales performance through contingent commissions.

Although these developments relate specifically to the Province of Ontario, we expect that similar changes may occur in Western Canada in the near future. In anticipation of such changes, we have recently undertaken, on a voluntary basis, to provide disclosure on our compensation, including an explanation of our contingent commissions, to our customers.

While we are not able to predict whether these recent developments will ultimately impact our revenues attributable to contingent commissions, as mentioned above, any decrease in these commissions would have a disproportionately negative impact on our financial results and limit our ability to incur and service debt and comply with financial covenants in our existing credit facility and could have a material adverse effect on our business, financial condition and result of operations.

Acquisitions and Growth

Our growth plans depend in part upon the ongoing acquisition, at reasonable prices, of independent brokers and other businesses. To meet our growth plans; an adequate number of acquisition candidates must be available at prices which will allow us to operate on a profitable basis. We may determine that current market or pricing conditions in the P&C insurance brokerage industry make future acquisitions uneconomical, or that the available acquisition opportunities are not sufficiently attractive to us. Moreover, we may not be able to finance such acquisitions as additional capital may not be available or may not be available on commercially acceptable terms.

To manage any future growth effectively, we will need to continue to implement and improve our operational, financial and management information systems and to hire, train, motivate, manage and retain our employees. There can be no assurance that we will be able to manage such growth effectively, that our management, personnel or systems will be adequate to support our operations or that we will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth, and failure to do so could have a material adverse effect on our business, financial condition and results of operations.

As part of our growth strategy, we seek to cross-sell multiple lines of business to existing customers. This strategy may not result in achieving our desired growth. Due in part to the decentralized nature of our operations, we may have difficulty in focusing our employees on our sales management program and cross-selling strategy. In addition, we may have difficulty integrating acquired operations and newly hired employees into our sales management program and cross-selling strategy.

We have identified 159 Target Communities (that we estimate have 475 brokers) for future expansion in the next six to eight years. There is no assurance that we can complete acquisitions in any of these communities within the estimated time frame or at all.

Although we conduct due diligence in respect to the business and operations of each of the businesses we acquire, we may not have identified all material facts concerning these businesses. Unanticipated events or liabilities relating to these businesses could have a material adverse effect on our financial condition. Furthermore, once we have integrated an acquired business, it may not achieve levels of revenue, profitability, or productivity comparable to our existing locations, or otherwise perform as expected. Our failure to succeed in our growth strategy or to integrate one or more acquired business so that it achieves our performance goals may have a material adverse effect on our results of operations and financial condition.

Capital Funding

We will, from time to time, require additional financing to continue to grow our business. Our ability to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as our business performance. There can be no assurance that we will be successful in our efforts to arrange additional financing, if needed, on terms satisfactory to us. If additional financing is raised by the issuance of Common Shares from treasury our control may change and our shareholders may suffer additional dilution. From time to time we may enter into transactions or expend funds in a manner which may be financed partially or wholly with debt and may increase our debt levels above industry standards.

Interest Rates

An increase in interest rates may result in increased costs of borrowing for us on both existing and future debt instruments or credit facilities and such increased costs would negatively affect our operating results. We are also exposed to interest rate risk arising from the difference between the repricing dates of Bank West's assets and liabilities. The differentials, or interest rate gaps, arise as a result of the differences in term preferences of borrowers and depositors. A positive interest rate gap exists when interest sensitive assets exceed interest sensitive liabilities for a specific repricing period. A positive gap would result in decreased interest income when market interest rates fall because assets are repricing earlier than liabilities. Rising market interest rates have the opposite effect. The effect of an interest rate gap and changing market interest rates may have a negative affect on Bank West's results of operation and financial condition.

Investment Risk

Investment risk is the exposure to investment loss from general economic and stock market fluctuations. We have invested a significant amount of our excess working capital in preferred shares of Canadian corporations rated "Pfd-1" and "P1" and "Pfd-2" and "P2" by Dominion Bond Rating Services or Standard & Poor's, a division of The McGraw-Hill Companies Inc.,

respectively. Bank West is also invested in government and corporate bonds and securities. A significant decline in the value or yields of these securities that we own could have a material adverse effect on our business, results of operations and financial condition. Our ability to achieve our investment objectives is affected by general economic conditions that are beyond our control. These investments are subject to the risk, among others, that the financial condition of issuers in which we invest may become impaired or the general condition of the stock market deteriorates. We may experience losses as a result of this risk and any such losses may be significant.

Credit Risk

We are exposed to credit risk with respect to our marketable securities, accounts receivable and mortgages and loans receivable. We only invest in Canadian corporations and institutions with large capitalization to reduce credit risk, however, changing economic conditions or the change in the financial condition of the issuer of the securities can result in increased defaults by the issuer whose securities we own. Credit risk associated with our accounts receivable is minimized by our large and diverse customer base, which covers all consumer and business sectors in Western Canada. However, we cannot ensure that our debtors will pay our accounts receivable on a timely basis or at all which could have a material adverse effect on our results of operations and financial condition. Credit risk associated with Bank West's mortgages and loans is mitigated through conservative underwriting policies, charges against real property and mortgage insurance, however, we cannot ensure that Bank West's debtors will pay these loans or mortgages on a timely basis or at all or that any associated security will be sufficient to cover the amount of any indebtedness. As a result, failure to repay these amounts could have a material adverse effect on our results of operations or financial condition.

Regulation

Our insurance, investments and mutual fund operations depend on our continued good standing under the licenses and approvals pursuant to which we operate. In all jurisdictions, the applicable licensing laws and regulations are subject to amendment or interpretation by regulatory authorities, and generally such authorities are vested with relatively broad and general discretion as to the granting, renewing and revoking of licenses and approvals. There can be no assurance that we will be able to obtain or retain all required licenses or that the cost of complying with these regulations will not increase. Any increase in the cost of complying with government regulation will have a negative effect on our operating results, as will the loss or inability to obtain any material license required to operate the business.

Changes to laws or regulations, including the adoption of generous consumer protection measures or other initiatives regarding contingent or other commissions or rates charged for automobile insurance or claims-handling procedures, could materially adversely affect our business, results of operations and financial conditions.

Bank West and Federated Life could be subject to regulatory actions, sanctions and fines if a regulatory authority believed it had failed to comply with any applicable law or regulation.

Where the Superintendent is concerned about an unsafe course of conduct or an unsound practice in conducting the business of a bank or a federal insurance company, the Superintendent may direct the bank or insurance company to refrain from a course of action or to perform acts necessary to remedy the situation. The Superintendent may, in certain circumstances, take control of the assets of a bank or insurance company or take control of the bank or insurance company.

More restrictive laws, rules or regulations may be adopted in the future that could make compliance more difficult and/or expensive. Specifically, recently adopted legislation addressing privacy issues, among other matters, is expected to lead to additional regulation of the insurance industry in the coming years, which could result in increased expenses or restrictions on our operations.

The revenue we generate from the sale of automobile insurance policies represents a significant portion of our overall revenues. As a result, any action by government authorities to change the nature of the automobile insurance industry in our markets could affect our commission levels and our revenues.

Nature of our Business

Our fixed costs (including costs associated with salaries and employee benefits and bonuses, depreciation and amortization, and interest expense and principal repayments), account for a significant portion of our costs and expenses. As a result, low productivity resulting from lower demand or other factors or a decrease in the premium rates, volume and commission paid in the segments of the P&C insurance industry in which we operate could have a material adverse effect on our business, financial condition and results of operations.

Brokers distribute insurance polices underwritten by P&C insurance companies. Some P&C insurance companies offer their products through dedicated, captive sales organizations. If the number of such P&C insurance companies increases, our revenues may decrease, which decrease could have a material adverse effect on our business, financial condition and results of operations.

Insurance Products

Our operations and success depend in part upon access to products sold by Canadian and international insurance companies. Our existing brokerage contracts with certain insurance companies do not have a set term or expiry date, but may be terminated by either party between 90-120 days' written notice, depending on the specific contract. To reduce this risk, we have entered into business development agreements with a number of major Canadian insurance companies. Our ability to carry on business is dependent on our continuing ability to attract and maintain relationships with these insurance companies.

However, other than pursuant to these agreements, there can be no assurance that we will continue to have access to such insurance products.

An inability to maintain or obtain access to insurance products would have a negative impact on us. Although we can obtain replacement business for departing insurance companies, the loss of such business, particularly of a major current provider, could have a material adverse effect on our business, financial condition and results of operations.

Further, any significant decrease in the premium rates, volume or basic or contingent commissions paid in the segments of the insurance industry in which we operate can adversely impact us.

Competition

We face competition from the estimated 800 independent brokers delivering P&C and life insurance products in rural Western Canada. We also face competition from certain P&C insurance companies, including some owned by Canadian chartered banks, who distribute their products directly to consumers. In addition, Canadian chartered banks pose a potential competitive threat as they are attempting to obtain the legal right to sell insurance at their branches to compete directly with insurance companies and brokers. There are also a number of companies operating in the P&C insurance brokerage industry in Canada that compete with us, including Hub International Limited, Anthony Clark International Insurance Brokers Ltd. and Canada Brokerlink Inc. We also face competition from banks, mutual fund companies, financial planners and other financial service providers in the sale of non-P&C insurance products. We, in general, also face future competition from financial institutions which deliver or are preparing to deliver financial services and insurance products and services by electronic means, most notably through the Internet.

Competition is intense in all of our business lines and in every insurance market. We believe that most of our competition in P&C insurance is from numerous local and regional brokerage firms that focus primarily on middle-market businesses and, to a lesser extent, from larger national brokerage firms. In addition, insurance companies compete with us by directly soliciting customers without the assistance of an independent broker or agent. Weak economic growth, as well as rising P&C insurance rates may exacerbate those various competitive pressures as some of our customers may choose to cut back or eliminate various types of coverage, or choose to seek competitive quotes from other brokers.

Some of our competitors have greater financial and other resources than we do and therefore no assurance can be given that we will be successful in such a competitive environment.

Dependence on Key Personnel

Our success is largely dependent on the performance of our key employees and senior management. Failure to retain our key employees or to attract and retain additional key employees with necessary skills could have a materially adverse impact on our growth and profitability. There can be no assurance that we will be able to engage the services of such personnel or retain our current personnel.

Errors and Omissions Claims

We have extensive operations and are subject to claims and litigation in the ordinary course of business resulting from alleged errors and omissions in placing insurance and handling claims. The placement of insurance and the handling of claims involve substantial amounts of money. Since errors and omissions claims against us may allege our potential liability for all or part of the amounts in question, claimants may seek large damage awards and these claims can involve significant defence costs. Errors and omissions could include, for example, our employees or sub-agents failing, whether negligently or intentionally, to place coverage or file claims on behalf of customers, to appropriately and adequately disclose insurer fee arrangements to our customers, to provide insurance providers with complete and accurate information relating to the risks being insured or to appropriately apply funds that we hold for our customers on a fiduciary basis. It is not always possible to prevent or detect errors and omissions, and the precautions we take may not be effective in all cases.

Our business, financial condition and/or results may be negatively affected if in the future our errors and omissions insurance proves to be inadequate or unavailable. In addition, errors and omissions claims may harm our reputation or divert management resources away from operating our business.

Unpredictable Catastrophic Events

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, crashes and derailments. The incidence and severity of catastrophes are inherently unpredictable. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas. Catastrophes can cause losses in a variety of P&C insurance lines, including business interruption, business, personal property and workers' compensation. It is possible that a catastrophic event or multiple catastrophic events could have a material adverse effect upon contingent commissions we would expect to receive from a P&C insurer that experienced significant losses, which could have a material adverse effect on our net income and financial condition.

Changes in the Business and Economic Environment

Our business and results can be significantly affected by changes in the business and economic environment, including: changes in the level of demand for P&C insurance; price competition and variation in other terms and conditions of trade; increases in the supply of P&C insurance as a result of new capital provided by recent or future market entrants or by



existing P&C insurers; volatile and unpredictable developments (including catastrophes); fluctuations in interest rates and/or price competition. The P&C insurance industry historically has experienced pricing and profitability cycles related to levels of industry underwriting capacity. As a consequence of fluctuations in pricing and P&C insurer profitability we may suffer declines in both basic and contingent commissions which could have a material adverse effect on our net income and financial condition.

Failure of Computer and Data Processing Systems

Our business is dependent upon the successful and uninterrupted functioning of our computer and data processing systems. The failure of these systems could interrupt our operations or materially impact our ability to rapidly evaluate and commit to new business opportunities. If sustained or repeated, system failures could result in the loss of existing or potential business relationships or could negatively affect our financial results.

Dividend Policy

We have never paid a dividend on the Common Shares and we currently intend to retain our earnings for use in growing our business. See "Dividends and Dividend Policy".

Industry Growth

We are subject to, and dependent on, fluctuations within the P&C insurance industry and the P&C insurance brokerage industry. According to Canadian Underwriter, the direct premiums written in the P&C insurance industry in Western Canada grew at a CAGR of 15.9% from 2001 to 2003, and we do not believe this growth rate is sustainable.

Covenants of the Company

In connection with our ongoing business activities, we have made and may make commitments to lenders, bondholders and regulatory authorities that may limit our flexibility to make, or influence, certain business decisions concerning the payment of dividends or the amount of dividends, raising capital, making acquisitions, and incurring additional debt. We believe that these commitments are or would be comparable to those made by similar businesses to our own.

Financial Instruments

We have entered into certain financial agreements that are considered to be financial instruments. Subordinated convertible debentures are considered to be compound financial instruments and accordingly, a portion of the debentures is recorded as equity in our audited financial statements. We entered into these agreements to obtain the necessary capital to fund business acquisitions. Financial instruments are subject to credit and interest rate risk as described in our audited financial statements.

Current Outlook

Recent rapid growth in P&C insurance premiums, particularly for commercial insurance, is slowing due to improved rate levels. Competition between P&C insurance companies for commercial policies is expected to increase now that rates have reached profitable levels, further slowing the rise in premiums. We expect that rate increases, and consequently our commission increases, will be moderate for the next 12 to 24 months. The recent automobile insurance reform, which occurred in Alberta in October 2004, will have the overall effect of reducing average personal automobile premiums in Alberta by approximately 2% to 4%, with a commensurate decline in basic commissions from the sales of this product. Further, tort reform in Alberta should lead to reduced costs associated with automobile insurance claims for P&C insurers. We believe these reforms will only have a marginal impact on our overall commission income. We expect that the P&C insurance industry's premium growth rates, and accordingly commission growth rates, in Western Canada will likely return to historical levels in the medium to long-term.

Recent developments in the United States and Canada surrounding the payment by P&C insurers of contingent commissions to brokers are likely to have implications on the P&C brokerage industry in Canada. Proposed new fee transparency recommendations will require increased disclosure of both basic and contingent commissions to customers. It is unclear whether these changes will translate into similar disclosure requirements in the life and health insurance industry. We have already taken steps to provide such disclosure to our customers and will comply with any new requirements that may arise.

We do not expect there to be material changes to the financial services industry in general that would have a material impact on the growth of Bank West, WMFC, WFG Agency Network, Federated Life or Jennings. We also expect the life and health insurance industry to remain stable in the medium to long-term, especially in the communities in Western Canada where we operate.

Auditor's Report

To the Shareholders of Western Financial Group Inc.

We have audited the consolidated balance sheets of Western Financial Group Inc. as at December 31, 2004 and 2003 and the consolidated statements of income, retained earnings and cash flows for each of the years in the two year period ended December 31, 2004. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers

Chartered Accountants

Calgary, Alberta

March 14, 2005

Management's Responsibility

Management is responsible for preparing the Company's consolidated financial statements and the other information that appears in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and reasonably present the Company's financial condition and results of operations in conformity with Canadian generally accepted accounting principles. Management has included in the Company's financial statements amounts that are based on estimates and judgements, which it believes are reasonable under the circumstances.

The Company maintains a system of internal accounting policies, procedures and controls intended to provide reasonable assurance, at appropriate cost, that transactions are executed in accordance with Company authorization and are properly recorded and reported in the financial statements, and that assets are adequately safeguarded. PricewaterhouseCoopers LLP audits the Company's consolidated financial statements in accordance with generally accepted accounting standards in Canada which provide an independent review that the statements present fairly, in all material respects, the financial position and results of this operation.

Western Financial Group Inc. Board of Directors has an Audit Committee with non-management Directors. The Committee meets with financial management and the independent auditors to review accounting, auditing and financial reporting matters.

Scott Tannas

President and Chief Executive Officer

March 18, 2005

Catherine Rogers

Senior Vice President, Finance and Chief Financial Officer

Consolidated balance sheets

As at December 31, 2004 and 2003	2004	2003
ASSETS		
Current		
Cash	$ 12,289,967	$ 15,500,353
Marketable securities (Note 4)	5,756,237	9,355,755
Accounts receivable (Note 5)	22,168,434	17,345,494
Prepaid expenses	2,199,181	1,487,815
Current portion of other assets (Note 7)	121,000	56,800
Current maturities of mortgages and loan (Note 8)	18,950,338	8,687,110
	61,485,157	52,433,327
Deferred charges (Note 6)	926,101	1,341,804
Other assets (Note 7)	9,601,629	5,807,379
Mortgages and loans (Note 8)	24,420,889	7,662,711
Capital assets (Note 9)	8,900,567	6,062,238
Intangible assets (Note 10)	7,081,043	4,207,610
Goodwill (Note 11)	44,394,090	38,807,502
	$ 156,809,476	$ 116,322,571
LIABILITIES		
Current		
Demand loans (Note 12)		$ 1,388,284
Accounts payable and accrued	$ 20,939,063	18,454,089
Income taxes payable	646,065	473,760
Customer deposits (Note 13)	9,896,150	11,278,371
Current portion of long-term debt (Note 14)	2,676,200	2,014,880
Current portion of obligation under capital leases (Note 15)	16,800	37,893
	34,174,278	33,647,277
Customer deposits (Note 13)	39,674,461	9,374,685
Long-term debt (Note 14)	17,749,309	21,167,710
Obligation under capital leases	22,400	42,093
Future income taxes (Note 20)	527,662	485,318
	92,148,110	64,717,083
SHAREHOLDERS' EQUITY		
Share capital (Note 16)	40,398,208	31,568,965
Other paid in capital (Note 18)	17,550,361	16,798,509
Contributed surplus	204,568	64,568
Retained earnings	6,508,229	3,173,446
	64,661,366	51,605,488
	$ 156,809,476	**$ 116,322,571**

Approved by the Board:

S. Tannas, Director

G. Speirs, Director

Consolidated statements of income & retained earnings

For the years ended December 31, 2004 and 2003	2004	2003
REVENUE		
Commissions and other customer income	$ 41,116,517	$ 32,097,872
Loan interest and investment income	1,126,641	568,151
	42,243,158	32,666,023
EXPENSES		
Operating expenses	33,788,075	26,625,284
Amortization of start up and reorganization costs	442,598	561,282
Income before the following	8,012,485	5,479,457
Income from long-term investments	1,322,665	316,308
One time charge (Note 26)	(669,963)	-
Loss on sale of goodwill and other intangible assets	(94,467)	(37,277)
Interest and financing costs on long-term debt	(1,370,026)	(1,458,971)
Amortization of intangible assets	(219,849)	(132,386)
Amortization of capital assets	(1,052,099)	(926,731)
Income before income taxes	5,928,746	3,240,400
Income taxes (Note 20)	1,699,517	1,120,662
NET INCOME FOR THE YEAR	4,229,229	2,119,738
Retained earnings, beginning of year		
As previously reported	3,319,166	1,991,025
Change in accounting policy (Note 25)	(145,720)	(120,582)
As restated	3,173,446	1,870,443
Excess on repurchase of shares and convertible debentures (Note 16)	(126,869)	(20,040)
Increase in other paid in capital, net of tax (Note 18)	(767,577)	(796,695)
Retained earnings, end of year	$ 6,508,229	$ 3,173,446
Earnings per share basic and diluted (Note 21)		
Basic	$ 0.18	$ 0.11
Diluted	$ 0.16	$ 0.10

Consolidated statements of cash flows

For the years ended December 31, 2004 and 2003	2004	2003
CASH PROVIDED BY (USED IN) OPERATIONS		
Net income for the year	$ 4,229,229	$ 2,119,738
Non-cash items		
Amortization of intangible assets	219,849	132,386
Amortization of capital assets	1,052,099	926,731
Future income taxes	(232,104)	(75,488)
Amortization of deferred charges	442,598	561,282
Other non-cash expense	483,076	127,653
Non-cash dividends	(855,700)	-
Share of investee's income	(299,237)	(296,308)
Loss on disposal of goodwill and other intangibles	94,467	37,277
Gain on disposal of other assets	(118,294)	(137,033)
	5,015,983	3,396,238
Accounts receivable	(2,274,880)	(2,633,364)
Prepaid expenses	(871,175)	(542,787)
Accounts payable and accrued	199,280	5,182,987
Income taxes	560,720	663,472
Deferred start up and reorganization costs	(142,587)	(185,555)
	2,487,341	5,880,991
CASH PROVIDED BY (USED IN) INVESTMENTS		
Other assets	(5,852,210)	(101,598)
Net assets acquired in business acquisitions	(8,310,271)	(1,799,646)
Capital asset purchases	(3,715,731)	(1,756,428)
Intangible asset purchases	(324,850)	(41,302)
Proceeds on sale of goodwill and intangible assets	355,000	-
Proceeds on sale of marketable securities	2,492,090	-
Marketable securities	3,599,521	(8,666,553)
Acquisition of loan portfolio	(896,337)	-
Mortgages and loans	(26,316,558)	(16,349,821)
	(38,969,346)	(28,715,348)
CASH PROVIDED BY (USED IN) FINANCING		
Repayments of long-term debt	(2,666,038)	(2,525,580)
Customer deposits	28,917,555	20,653,056
Bank loan advances	-	1,900,000
Net proceeds from issue (repurchase) of share capital	8,492,165	10,616,074
Repayment of capital lease	(40,786)	(137,269)
Deferred finance charges	(42,991)	(47,735)
Net repayments of investment margin loan	(267,843)	(1,586,421)
	34,392,062	28,872,125
(Decrease) increase in cash for the year	(2,089,943)	6,037,768
Cash and cash equivalents, beginning of year	14,379,912	8,342,144
Cash and cash equivalents, end of year	$ 12,289,969	$ 14,379,912
Cash and cash equivalents are comprised as follows:		
Cash	$ 12,289,969	$ 15,500,353
Operating lending facility	-	(1,120,441)
	$ **12,289,969**	$ **14,379,912**

For the years ended December 31, 2004 and 2003

NOTE 1 OPERATIONS

Western Financial Group Inc. ("the Company") was incorporated in the province of Alberta as 674658 Alberta Inc. on November 15, 1995 and is engaged in the acquisition and operation of insurance and financial service brokerage businesses, banking activities and travel agency operations in rural western Canada. The banking activities are carried out through a federally incorporated, wholly owned subsidiary, Bank West, which received its bank charter on November 27, 2002 and commenced operations on January 30, 2003.

NOTE 2 ACCOUNTING POLICIES

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiary companies, which are wholly owned.

Accounting Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements, and income and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to the allowance for credit losses, allowance for policy cancellations, assessment of impairment of goodwill, the useful life of intangible assets, allocation of purchase price to goodwill and intangible assets and future income taxes. Therefore, actual results could differ from these and other estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash, short-term deposits and investments that mature within three months at the time of purchase, and the outstanding amount under the Company's operating lending facility.

Investments

Bank West purchases marketable securities with the intention of holding them until maturity. Equity securities are recorded at cost and debt securities at amortized cost. Declines in market value below cost are recognized when such declines are considered other than temporary.

Entities which are not controlled and over which the corporation has the ability to exercise significant influence, referred to as affiliated companies, are accounted for using the equity method.

Deferred Charges

Deferred charges include costs related to the start up of new businesses, development of new products and certain of the costs of obtaining debt financing. Amounts are being amortized on a straight-line basis commencing in the year of deferral, except for start up costs, which commence when the pre-operating period is over. Financing costs are amortized over the term of the respective debt. Other deferred charges are amortized over periods from three to five years.

Mortgages and Loans

Current performing loans are stated at cost net of an allowance for credit losses. Loans that are considered impaired are recorded at the net present value of expected future cash flows.

Loans are considered impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of both principal and interest. Loans will be returned to performing status when there is reasonable assurance of collection and all delinquent principal and interest payments are brought current.

Mortgages and loans that mature in the year are included as current assets.

Specific allowance

A specific allowance for loss is provided when loans are considered to be impaired, which occurs when they are either more than 90 days in arrears, or there is no longer reasonable assurance of timely collection of outstanding principal and interest.

General allowance

Bank West has provided a general allowance for loan losses, which management estimates are contained within the portfolio on the balance sheet date. The general allowance is established against the loan portfolio in respect of the Bank West's core business lines where assessment of existing economic and portfolio conditions indicate that it is probable that losses have occurred, but where such losses cannot be determined on an item-by-item basis. As Bank West has little operating history, it has utilized industry knowledge in establishing the level of general allowance. This allowance is reassessed monthly and may fluctuate as a result of changes in portfolio volumes, concentrations and risk profile; analysis of evolving trends and management's current assessment of factors that may have affected the condition of the portfolio.



Capital Assets

Capital assets are recorded at cost and are being amortized over their estimated useful lives on a diminishing balance basis, except for leasehold improvements which are amortized on a straight line basis, commencing in the year of acquisition up to and excluding the year of disposal, at the annual rates detailed in Note 9. In the year of acquisition, one-half of the annual amount of amortization is recorded.

Goodwill

Goodwill represents the excess of consideration paid over the fair value of net tangible and intangible assets acquired in business acquisitions and related costs of acquisition. Goodwill is not amortized, but is tested for impairment on an annual basis by comparing the fair value of each reporting unit to its carrying value. When the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its fair value.

Intangible Assets

Intangible assets in respect of purchased customer contracts and related customer relationships are being amortized on a straight line basis over a 30 year period. These intangible assets are considered to have a finite life, and as such, are subject to an impairment test when events and circumstances indicate the carrying amounts may not be recoverable.

Costs related to the Letters of Patent of Incorporation and the Order to Commence and Carry on Business with respect to the commencement of banking activities are recorded as intangible assets. These costs will not be amortized as they are considered to have an indefinite life. The assets will be reviewed annually for impairment by comparing the carrying amount to its fair value.

Income Taxes

Income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as future income taxes. The tax rate substantially enacted when these temporary differences are anticipated to reverse is used to calculate future income taxes.

Convertible Subordinated Debentures

Convertible subordinated debentures are recorded in part as debt and in part as equity when the Company has the right to repay the debenture by issuing shares.

The debt component consists of the present value of the future interest payments remaining. The equity component consists of the present value of the principal amount of the debenture and the value attributed to the holder's option to convert the principal balance into common shares. When the debentures are converted to common shares, the liability and equity components are reduced with a corresponding increase to share capital.

The debt component will be reduced and the equity component increased over the term of the debenture.

Preferred Shares

Preferred shares issued by the Company that give the holder the right to require the Company to redeem the share at or after a particular date for a fixed or determinable amount, are recorded as debt. Dividends paid and accrued on such shares are expensed and included in interest on long-term debt.

Revenue Recognition

Insurance commission revenue is recognized when the insurance policy sold is in effect and the amount of the commission earned is determinable. As described in Note 25 the Company changed its accounting policy to provide for an allowance on commission losses that may be incurred if a policy is cancelled.

Contingent profits represent amounts received from insurance companies based on volumes and loss ratios of customer insurance policies written with the respective Company and are recognized in the year earned.

The Company records interest income earned on performing loans as interest income in the financial statements. Recognition of interest income ceases when a loan is classified as impaired.

Stock-Based Compensation

In the fourth quarter of 2003, the Company prospectively adopted the fair-value-based method of accounting for stock-based compensation applying to options issued for years beginning in 2003. Under this method, compensation expense for stock options granted is measured at the fair value at the grant date using the Black-Scholes valuation model. This value is recorded as a charge to net income, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period.

Prior to 2003, no compensation expense was recognized when the exercise price equaled the market price at the date when the stock options were issued to employees. The Company provides pro forma basic and diluted earnings per share in Note 17 for the fair value of options granted between January 1, 2002 and December 31, 2002.

Any consideration paid by employees and the associated contributed surplus is credited to share capital when the option is exercised.

The matching contribution made by the Company under the employee share ownership plan is being amortized over the vesting period of the shares commencing in the month of contribution.

Interest Rate Swaps

The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps. The Company does not enter into derivative financial instruments for speculative or trading purposes.

Comparative Figures

Certain of the comparative figures presented have been reclassified to conform with the current year's presentation.

NOTE 3 BUSINESS ACQUISITIONS

All business acquisitions are accounted for using the purchase method whereby the assets and liabilities have been recorded at fair market values and the operating results have been included in the Company's financial statements from the effective date of purchase.

December 31, 2004

During the year ended December 31, 2004, the Company acquired all of the outstanding shares and certain assets of the following insurance brokerage businesses: Barker Agencies Ltd., Fabian Insurance Services Ltd., Okotoks Insurance Ltd., Robinson Agencies (1980) Ltd., Page Agencies Ltd., and Bru Agencies Ltd.

December 31, 2003

During the year ended December 31, 2003, the Company acquired all of the outstanding shares and certain assets of the following insurance brokerage businesses: Cedar Square Insurance, Financial Centre Ltd., Mirror Lake Insurance Ltd. and Wilford Agencies (1994) Ltd.

Net assets acquired in business acquisitions:	2004	2003
Current assets	$ 1,804,770	$ -
Capital assets	141,238	-
Intangible assets	3,066,092	846,485
Goodwill	6,184,192	1,179,061
Accounts payable and accrued liabilities	(1,710,515)	-
Future taxes payable	(773,622)	(225,900)
	8,712,155	1,799,646
Cash acquired	(401,884)	-
	$ 8,310,271	$ 1,799,646
Consideration:		
Cash	$ 8,712,155	$ 1,799,646

Of the total amount assigned to goodwill and intangibles $1,149,793 (2003 - $199,744) is deductible for tax purposes.

NOTE 4 MARKETABLE SECURITIES

Securities are composed of Canadian Federal Government and Provincial Government treasury bills, acceptances of Canadian Schedule 1 banks and Canadian corporate term-preferred and fixed/floating-preferred shares. Securities are purchased for liquidity and longer-term investment, with the intention of holding to maturity.

2004

	Within 1 year	Over 1 year	Total carrying value	Estimated market value
Fixed income securities				
Canadian government	$ 4,526,747	$ -	$ 4,526,747	$ 4,527,541
Bankers' acceptances	1,003,531	990,035	1,993,566	1,991,892
Preferred shares	128,798	3,813,786	3,942,584	3,974,830
Other	97,161	8,100	105,261	105,261
Total	$ 5,756,237	$ 4,811,921	$ 10,568,158	$ 10,599,524

2003

	Within 1 year	Over 1 year	Total carrying value	Estimated market value
Fixed income securities				
Canadian government	$ 6,085,211	$ -	$ 6,085,211	$ 6,085,570
Provincial government	791,932	-	791,932	791,671
Bankers' acceptances	2,478,612	-	2,478,612	2,478,225
Preferred shares	-	2,849,292	2,849,292	3,062,240
Total	$ 9,355,755	$ 2,849,292	$ 12,205,047	$ 12,417,706

At December 31, 2004, the Bank had pledged Government of Canada Treasury Bill in the amount of $553,000 in support of a Clearing Settlement line of credit of $500,000. (2003 - $538,000).

NOTE 5 ACCOUNTS RECEIVABLE

The Company has recorded contingent commissions receivable of $322,300 (2003-$322,300) with respect to policies written through Lloyds of London. These amounts may not be received for up to five years from the year in which the policy is written. Actual amounts received may vary based on actual claims made and administrative expenses incurred.



NOTE 6 DEFERRED CHARGES

2004	Cost	Accumulated Amortization	Net Book Value
Start up and reorganization costs	$ 1,899,003	$ 1,521,934	$ 377,069
Financing costs	1,872,566	1,323,534	549,032
	$ 3,771,569	$ 2,845,468	926,101
2003			
Start up and reorganization costs	$ 1,756,415	$ 1,079,336	$ 677,079
Financing costs	1,829,576	1,164,851	664,725
	$ 3,585,991	$ 2,244,187	$ 1,341,804

NOTE 7 OTHER ASSETS

	2004	2003
Portfolio investments (Note 4)	$ 4,811,921	$ 2,849,292
Investment in Jennings Capital Inc, a corporation in which a director holds an interest. Notes receivable are non-interest bearing and due on demand. These notes have been postponed and subordinated to all other debt of the corporation. The Company has indicated it will not request repayment within the next fiscal year. The fair value of these notes is not determinable.	1,094,363	678,363
1,094,363 (2003 - 678,363) common shares representing 29.26% (2003 - 33.9%) of the outstanding common shares.	1,016,209	634,855
500 preferred shares, cumulative dividends at 4% per annum.	500,000	500,000
Loan to a Company controlled by the chief executive officer of the Company. Interest is repayable annually at 4% per annum. Loan is secured by 350,000 shares of the Company. Market value of the security as at December 31, 2004 was $892,500. Due September, 2007.	560,000	560,000
Note receivable with respect to proceeds from sale of a subsidiary. Interest payable annually 4% per annum. Due December, 2007.	198,980	198,980
Promissory note, repayable at $5,198 per month including interest at 5% per annum. Secured by a general security agreement over all of the assets of Kennedy Insurance Ltd. and a guarantee from its shareholders. Due June, 2006.	171,913	223,732
Demand promissory note due from an officer of a subsidiary covering relocation expenses. The balance remaining will be forgiven based on the terms of the officer's employment contract over a maximum period of three years. This note is non-interest bearing and secured by a charge over property owned by the officer.		38,758
Deposits and future costs for business acquisitions that closed subsequent to year end (Note 24)	1,369,243	180,199
	9,722,629	5,864,179
Current portion of other assets, representing the portion of notes receivable in the next fiscal year.	(121,000)	(56,800)
	$ 9,601,629	$ 5,807,379

NOTE 8 MORTGAGES AND LOAN

2004

	Residential mortgages - insured	Residential mortgages - uninsured	Farm & commercial mortgages	Premium financing	Other loans and leases	Total
Residential	$ 8,487,630	$ 7,827,148	$ -	$ -	$ -	$ 16,314,778
Personal	-	-	-	3,372,236	9,914,386	13,286,622
Business	-	-	5,966,192	4,608,889	3,464,442	14,039,523
	8,487,630	7,827,148	5,966,192	7,981,125	13,378,828	43,640,923
Allowance for credit losses						(269,696)
						43,371,227
Portion maturing in the next year based on contractual terms						(18,950,338)
						$ 24,420,889

2003

	Residential mortgages - insured	Residential mortgages - uninsured	Farm & commercial mortgages	Premium financing	Other loans	Total
Residential	$ 4,483,765	$ 3,810,894	$ -	$ -	$ -	$ 8,294,659
Personal	-	-	-	2,464,750	324,517	2,789,267
Business	-	-	2,495,817	2,570,452	279,918	5,346,187
	4,483,765	3,810,894	2,495,817	5,035,202	604,435	16,430,113
Allowance for credit losses						(80,292)
						16,349,821
Portion maturing in the next year based on contractual terms						(8,687,110)
						$ 7,662,711



NOTE 9 CAPITAL ASSETS

2004

	Amoritization Rate	Cost	Accumulated Amortization	Net book Value
Land		$ 719,910	$ -	$ 719,910
Buildings	5%	2,711,692	368,400	2,343,292
Leasehold improvements	10%	2,564,237	628,994	1,935,243
Furniture and equipment	20%	2,390,518	951,016	1,439,502
Computer hardware and software	20%	4,276,126	2,182,030	2,094,096
Leased assets	30%	899,959	641,748	258,211
Automotive	30%	161,011	50,698	110,313
		$ 13,723,453	$ 4,822,886	$ 8,900,567

2003

Land		$ 719,910	$ -	$ 719,910
Buildings	5%	1,544,982	275,772	1,269,210
Leasehold improvements	10%	1,615,666	466,665	1,149,001
Furniture and equipment	20%	1,505,597	717,841	787,756
Computer hardware and software	20%	3,465,894	1,759,785	1,706,109
Leased assets	30%	899,959	531,086	368,873
Automotive	30%	81,779	20,400	61,379
		$ 9,833,787	$ 3,771,549	$ 6,062,238

NOTE 10 INTANGIBLE ASSETS

2004

	Cost	Accumulated Amortization	Net Book Value	Additions
Customer contracts and relationships	$ 7,035,742	$ 396,610	$ 6,639,132	$ 3,428,641
Bank West Letters of Patent of Incorporation	441,911	-	441,911	-
	$ 7,477,653	$ 396,610	$ 7,081,043	$ 3,428,641

2003

Customer contracts and relationships	$ 3,973,085	$ 207,386	$ 3,765,699	$ 846,485
Bank West Letters of Patent of Incorporation	441,911	-	441,911	41,302
	$ 4,414,996	$ 207,386	$ 4,207,610	$ 887,787

NOTE 11 GOODWILL

Balance, December 31, 2002	$ 37,624,491
Goodwill acquired during 2003	1,183,011
Balance, December 31, 2003	38,807,502
Goodwill acquired during 2004	6,184,192
Goodwill disposed of during 2004	(597,604)
Balance, December 31, 2004	$ 44,394,090

NOTE 12 DEMAND LOANS

	2004	2003
Investment margin loan with Jennings Capital Inc., an affiliated company. Due on demand, bearing interest at bank prime plus 1.0% per annum. The effective interest rate on this loan was 5.25% at December 31, 2004. (2003 – 5.5%) Security provided consists of certain marketable securities with a net book value of NIL (2003 - $2,007,435) described in Note 7.	$ -	$ 267,843
Operating lending facility, authorized to a maximum of $1,500,000, bearing interest at bank prime plus 0.5% per annum. The effective interest rate on this loan was 4.75% at December 31, 2004 (2003 5%). Security is as described in Note 14.	-	1,120,441
	$ -	$ 1,388,284

NOTE 13 CUSTOMER DEPOSITS

Customer deposits are comprised of guaranteed investment certificates ("GIC") denominated in Canadian currency, with fixed maturities not exceeding 5 years from date of deposit. Canada Deposit Insurance Corporation ("CDIC") insures these deposits to the extent of $60,000 per Canadian resident. The uninsured portion represents 1.49% (2003 - 2.8%) of the total portfolio.

2004

Terms to maturity	1 yr & under	1-2 years	2-3 years	3-4 years	4-5 years	Total
Businesses	$ 1,659,273	$ 633,117	$ 262,000	$ 742,960	$ 1,034,993	$ 4,332,343
Individuals	8,236,877	2,671,882	4,325,411	13,951,966	16,052,132	45,238,268
	$ 9,896,150	$ 3,304,999	$ 4,587,411	$ 14,694,926	$ 17,087,125	$ 49,570,611

2003

Terms to maturity	1 yr and under	1-2 years	2-3 years	3-4 years	4-5 years	Total
Businesses	$ 877,834	$ 40,000	$ 450,000	$ -	$ 446,665	$ 1,814,499
Individuals	10,400,537	303,851	932,707	35,000	7,166,462	18,838,557
	$ 11,278,371	$ 343,851	$ 1,382,707	$ 35,000	$ 7,613,127	$ 20,653,056

NOTE 14 LONG-TERM DEBT

	2004	2003
Bank loans provided by a Canadian chartered bank, authorized to a maximum of $15,000,000		
Bank loans, repayable at $121,657 per month plus interest at the rates detailed below.		
Interest at bank prime rate plus .50% per annum. The effective rate of interest at December 31, 2004 was 4.75% (2003- 5.0%).	$ 503,045	$ 1,665,106
Interest at 4.175% per annum	3,500,000	3,800,000
Bank loan with interest only payable monthly. The Company has entered into an interest rate swap agreement (Note 26), whereby the interest rate on this bank loan has been fixed at a rate of 6.225% per annum until May, 2008.	8,000,000	8,000,000
Repayment of these bank loans is dependent upon annual renewal. If the bank elects not to renew, all amounts will be repayable over two years. Collateral provided for the above bank loans, as well as the overdraft lending facility and the demand loan described in Note 12, consists of a general security agreement, a general assignment of accounts receivable, a pledge of all shares of each subsidiary, an unlimited guarantee from each subsidiary supported by a general security agreement and general assignment of accounts receivable, a first charge $25,000,000 collateral mortgage over real property of the subsidiaries, a subordination agreement from each of the debenture holders, and an assignment of all risk insurance.		
$10,974,300 (2003 - $11,473,000) subordinated convertible redeemable debenture, interest payable semi-annually at 9% per annum. Convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of $2.50 per share. At any time after February 28, 2005, the Company may redeem the debentures at par if the 20 day weighted average trading price of its shares is not less than $3.10. On maturity, the Company may repay the debentures by issuing shares of the Company based on 95% of the average trading price at that time. Due February, 2007. This debenture is considered to have an equity component and therefore a portion was recorded as other paid in capital on issuance (Note 18).	1,704,327	2,598,390
$5,000,000 subordinated convertible redeemable debenture, interest payable semi-annually at 4% per annum. Convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of $3.25 per share. As this debenture includes an equity component related to the holder's conversion option, a portion was recorded as other paid in capital on issuance. Due January, 2010.	4,974,812	4,969,774
$10,000,000 subordinated convertible redeemable debenture, interest payable semi-annually at 4% per annum. Convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of $3.00 per share. At any time after March 31, 2001, the Company may redeem the debentures at par if the shares of the Company have traded at $3.90 or on maturity the Company may repay the debenture by issuing shares, provided that the ratio of earnings before interest, taxes, depreciation and amortization to the combined principal and interest payments for the quarter immediately preceding the maturity date is 1.25 to 1. Due March, 2009. This debenture is considered to have an equity component and therefore a portion was recorded as other paid in capital on issuance (Note 18).	1,370,314	1,692,740
Finance contracts repayable at $1,596 per month including interest at 0% to 6% per annum. Security provided consists of certain automotive assets.	73,011	56,580
300 (2003 –400) preferred shares, Series 1, with a par value of $1,000, issued to a company controlled by a director, redeemable at par by the holder at 20% annually, cumulative dividends at 4% per annum.	300,000	400,000
	20,425,509	23,182,590
Portion due within next fiscal year.	(2,676,200)	(2,014,880)
	$ **17,749,309**	$ **21,167,710**

NOTE 14 LONG-TERM DEBT (CONTINUED)

Estimated principal repayments of long-term debt, assuming renewal on the same or similar terms, in each of the next five years are as follows:

2005	$ 2,676,200
2006	$ 2,676,700
2007	$ 1,660,500
2008	$ 8,330,000
2009	$ 82,000

NOTE 15 OBLIGATION UNDER CAPITAL LEASES

Under the terms of an equipment lease expiring in 2007, the Company is committed to total minimum annual lease payments as follows:

	2004	2003
2004		$ 37,893
2005	$ 16,800	16,800
2006	16,800	16,800
2007	7,000	7,000
Total minimum lease payments	$ 40,600	$ 78,493
Portion due within next fiscal year	$ 16,800	$ 37,893

NOTE 16 SHARE CAPITAL

COMMON SHARES

Authorized shares

Unlimited number of common, without nominal or par value
Unlimited number of first preferred, issuable in series
Unlimited number of second preferred

ISSUED COMMON SHARES	Number	Amount
Balance December 31, 2002	11,786,363	$ 20,512,851
Common shares issued for:		
Cash pursuant to stock options exercised	75,000	163,300
Private placement	4,581,090	10,184,292
Issued on conversion of debenture	51,600	137,000
Cancelled under the terms of an issuer bid	(33,400)	(71,450)
Share issuance costs (net of tax benefit of $283,000)		(488,028)
Balance, December 31, 2003	16,460,653	30,437,965
Common shares issued for:		
Private placement	3,919,463	9,294,939
Issued on conversion of debenture	145,200	363,000
Cancelled under the terms of an issuer bid	(189,600)	(379,079)
Escrowed shares cancelled	(61,718)	(141,951)
Costs of private placement (net of tax benefit of $383,135)		(756,801)
Balance, December 31, 2004	20,273,998	$ 38,818,073

NOTE 16 SHARE CAPITAL (CONTINUED)

ISSUED COMMON SHARE PURCHASE WARRANTS		
Issued in connection with private placement of 4,581,090 common shares	2,290,545	1,131,000
Balance December 31, 2003	2,290,545	1,131,000
Issued in connection with private placement of 1,819,462 common shares	909,731	449,135
Balance December 31, 2004	3,200,276	$ 1,580,135
TOTAL SHARE CAPITAL		$ 40,398,208
ISSUED FIRST PREFERRED SERIES 1 SHARES, recorded as long term debt (Note 14)		
Balance, December 31, 2002	500	$ 500,000
Cancelled on redemption	(100)	(100,000)
Balance, December 31, 2003	400	400,000
Cancelled on redemption	(100)	(100,000)
Balance, December 31, 2004	300	$ 300,000

Escrowed Shares

Common shares issued as consideration for business acquisitions are subject to certain escrow provisions that restrict their trading. As at December 31, 2004, 508,644 (December 31,2003 - 293,301) shares were being held in escrow.

Cancellation Of Share Capital

During the year, the Company acquired 189,600 (2003 - 33,400) shares pursuant to a normal course issuer bid for cash consideration of $487,151 (2003 - $91,490). The shares were then cancelled by the Company. The excess of cash consideration over the assigned value of these shares has been recorded as a charge to retained earnings.

Warrants

The Company issued 909,731 (2003 - 2,290,545) common share purchase warrants in connection with the private placement of 1,819, 463 (2003 - 4,581,090) common shares. These common share purchase warrants may be exercised on the basis of one warrant and $2.90 for one common share, expiring December 2005. The share purchase warrants were assigned a value estimated by using an option pricing model assuming a weighted average volatility of the Company's share price of 30% and a weighted average annual risk free rate of 4.07%.

NOTE 17 STOCK BASED COMPENSATION

Stock Options

The Company has a fixed stock option plan under which it may grant options to directors, officers, employees and consultants for up to 10% of the issued and outstanding shares to an aggregate maximum of 1,600,000 common shares. The option price is equivalent to the share market price on the date granted.

	2004		2003	
	Share options	Weighted Average Exercise Price	Share options	Weighted Average Exercise Price
Outstanding, beginning of year	557,000	$ 2.42	642,500	$ 2.32
Granted	132,000	$ 2.76	112,000	$ 2.67
Exercised	-	$ -	(75,000)	$ 2.14
Cancelled	(120,000)	$ 2.10	(122,500)	$ 2.31
Outstanding, end of year	569,000	$ 2.57	557,000	$ 2.42
Exercisable, end of year	487,000	$ 2.52	455,000	$ 2.36
Available for grant, end of year	1,031,000		1,043,000	

NOTE 17 STOCK BASED COMPENSATION (CONTINUED)

The following table summarizes information about fixed stock options outstanding at December 31, 2004.

Range	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.00 - $2.99	489,000	2.44 years	$2.50	407,000	$2.42
$3.00- $3.20	80,000	3.17 years	$3.00	80,000	$3.00
	569,000			487,000	

During the year, the Company granted 132,000 (2003 - 112,000) options to purchase common shares at exercise prices from $2.60 to $2.85, which was equal to or greater than the market value of the shares on the date granted. The following table summarizes information about stock options granted during the year.

Number granted	Market price	Exercise price	Fair value
50,000	$ 2.60	$ 2.60	$ 0.78
82,000	$ 2.65	$ 2.85	$ 0.70

The Company has recorded $140,000 (2003 - $64,568) as compensation expense and contributed surplus, in respect of options vested during the year, based on a fair value determination estimated using the Black Scholes option-pricing model.

Under the fair value method, the value of stock options at the grant date that have vested during the year are estimated using the Black-Scholes option-pricing model using the following assumptions:

	2004	2003
Expected option life (years)	4	4
Risk free rate	3.68% - 3.90%	3.55% - 3.72%
Expected stock volatility	30%	30%
Dividend yield	0%	0%

Additional Fair Value Disclosure

Prior to 2003, the Company used the intrinsic method of accounting for stock based compensation. For stock options granted between January 1 and December 31 2002, when a Company does not use the fair-value-based method of accounting, it must disclose pro-forma fair-value-based net income and earnings per share information. Under the fair value based method the Company's pro forma basic and diluted earnings per share would have been as follows:

	2004	2003
Net income for the year, as reported	$ 4,229,229	2,119,738
Stock-based compensation expense	(12,800)	(43,566)
	$ 4,216,429	$ 2,076,172
Basic and diluted earnings per share, as reported	$ 0.18	$ 0.11
Effect of stock-based compensation expense	0.00	0.00
Pro forma basic earnings per share	$ 0.18	$ 0.11
Pro forma diluted earnings per share	$ 0.16	$ 0.10

Employee Share Ownership Plan

The Company participates in an Employee Share Ownership Plan which enables substantially all employees to purchase common stock of the Company. Eligible employees make personal contributions to the plan up to 5% of their earnings which are matched by the Company. Personal and Company matching contributions are used to acquire common stock in the Company at market prices. All acquisitions are for shares currently issued and there is no commitment under the plan for the Company to issue additional shares.

NOTE 18 OTHER PAID IN CAPITAL

Other paid in capital represents the principal portion of convertible debentures that may be repaid in shares at the option of the Company.

	2004	2003
Balance, beginning of year	$ 16,798,509	$ 15,728,894
Accretion of principal component	1,131,577	1,169,696
Conversion of debentures	(379,725)	(100,081)
	$ 17,550,361	$ 16,798,509

The principle portion of the convertible debenture is being accreted over its term through a charge to retained earnings.

NOTE 19 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2004	2003
Interest paid	$ 1,199,343	$ 2,449,600
Income taxes paid	$ 1,285,415	$ 544,160
Non-cash investing and financing activities		
Dividends received	$ 407,728	$ -
Dividends paid on preferred shares	$ 12,000	$ 36,000
Finance contract	$ 33,457	$ -
Capital lease obligations	$ -	$ 61,700
Conversion of 9% convertible debentures	$ 363,000	$ 137,000
Proceeds from sale of goodwill	$ 355,000	$ -

NOTE 20 INCOME TAXES

	2004	2003
Future income taxes	$ (232,104)	$ (75,488)
Current income taxes	1,931,621	1,196,150
	$ 1,699,517	$ 1,120,662

The Company's actual income tax expense differs from the expected income tax expense as follows:

	2004		2003	
	%	Amount	%	Amount
Expected income tax expense	34	$ 2,008,000	37	$ 1,194,512
Non-deductible expenses	1	77,200	2	94,400
Non-taxable income	(6)	(401,840)	1	31,350
Income tax rate and other adjustments	-	16,157	(6)	(199,600)
Actual income tax expense	29	$ 1,699,517	34	$ 1,120,662

NOTE 20 INCOME TAXES (CONTINUED)

The major components of future income tax liability using the combined federal and provincial tax rates of 34% (2003 - 37%) are as follows:	2004	2003
Capital assets and other	$ 395,800	$ 440,500
Goodwill and intangibles	1,729,300	970,800
Deferred charges and share issue costs	(533,900)	(422,600)
Tax loss carryforwards	(872,838)	(390,000)
Allowance for credit losses	(90,700)	(27,800)
Allowance for cancellations	(100,000)	(85,582)
	$ 527,662	$ 485,318

NOTE 21 EARNINGS PER SHARE

December 31, 2004	Income	Shares	Per share
Net income for the year	$ 4,229,229	19,014,139	
Increase in other paid in capital net of tax	(767,577)		
Basic earnings per share	3,461,652	19,014,139	$ 0.18
Effect of dilutive securities			
Stock options	-	45,435	
Convertible debentures	1,075,726	9,261,515	
Diluted earnings per share	$ 4,537,378	28,321,089	$ 0.16

Non-dilutive options to purchase 162,000 common shares at $2.85 and $3.00 per share and non-dilutive warrants to purchase 3,200,276 common shares at $2.90 per share were not included in the computation of diluted earnings per share because the options' and warrants' exercise prices were greater than the average market price of the common shares for the year.

December 31, 2003	Income	Shares	Per share
Net income for the year	$ 2,119,738	11,957,811	
Increase in other paid in capital net of tax	(796,695)		
Basic earnings per share	1,323,043	11,957,811	$ 0.11
Effect of dilutive securities			
Stock options		91,871	
4% convertible debentures	394,914	5,435,893	
Diluted earnings per share	$ 1,717,957	17,485,575	$ 0.10

9% convertible debentures in the amount of $11,473,000 have not been included in the computation of diluted earnings per share because the financing costs (after tax) per common share obtainable on conversion, exceeds basic earnings per share.

Non-dilutive options to purchase 80,000 common shares at $3.00 per share and non-dilutive warrants to purchase 2,290,545 common shares at $2.90 per share were not included in the computation of diluted earnings per share because the options' and warrants' exercise prices were greater than the average market price of the common shares for the year.

NOTE 22 GUARANTEES AND COMMITMENTS

In the normal course of business Bank West issues commitments to extend credit to customers which are not recorded in the financial statements. These commitments which are undrawn at year-end are in the form of loans for specific amounts and maturities subject to meeting certain conditions and have no stated expiry dates. The maximum potential amount of future payments under these commitments is $1,507,272 (2003 - $2,997,378).

Under the terms of property leases expiring between 2005 and 2012, the Company is committed to the following annual lease payments:

2005	$ 1,064,700
2006	$ 961,500
2007	$ 735,800
2008	$ 562,400
2009	$ 367,000

NOTE 23 RELATED PARTY TRANSACTIONS

Related parties include directors, officers and their related companies. The prices and term of transactions with related parties are in accordance with normal business practice and recorded at the exchange amount.

- Commissions of $2,910 (2003-$3,680) were paid to Jennings Capital Inc., an affiliated Company in which a director holds an interest, for management of the Company's marketable securities. and interest of $2,152 (2003-$59,867) in respect of the investment margin loan described in Note 13.
- Dividends income on preferred shares of $1,023,428 (2003 - $296,308) and income from equity invest ments of $299,237 (2003 - $20,000) were accrued with respect to our investment in Jennings Capital Inc.
- Interest income of $30,995 (2003 - Nil) was received from notes receivable with respect our investment in Jennings Capital Inc. and Jennings paid $17,469 for computer services in 2004.
- Management fees of $18,000 (2003 - $16,500) were paid and interest income of $11,150 (2003 - $22,400) was earned on a loan to a Company controlled by the chief executive officer of the Company.
- Dividends on preferred shares in the amount of $12,000 (2003 - $12,000) were accrued to a company controlled by a director.
- Consulting fees of $42,040 (2003 - $29,173) were paid to a Company in which a director holds an interest for the due diligence of acquisitions.
- Accounts receivable includes $98,192 (2003- $60,348) from Western Communities Foundation, a private foundation that is related to the Company.
- The Western Mutual Fund Company is able to share certain officers and staff with Jennings Capital Inc. It has accrued $111,514 (2003 - Nil) in shared costs which is payable to Jennings Capital Inc. Other transactions and balances outstanding are included in Other Assets as disclosed in Note 7.
- During the year certain directors purchased insurance policies through the company. Commission revenues in respect to these policies was received from the respective companies in the normal course of business.

NOTE 24 SUBSEQUENT EVENTS

On February 28, 2005 the Company closed the acquisition of Federated Life Insurance Company of Canada for an aggregate purchase price of $20 million. The Company used the net proceeds of $20.8 million raised from its public offering of subscription receipts to fund the acquisition. Concurrent with the completion of the acquisition, the Company issued 10,350,000 common shares upon conversion of the issued and outstanding subscription receipts.

On February 28, 2005, the Company issued $1,000,000 in unsecured subordinated demand debentures subsequent to year end. Jennings Capital Inc. received a commission of $50,000 on placement of this debenture.

NOTE 25 CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2004, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to revenue recognition. Under the new recommendation the Company provides for an allowance with respect to expected losses that may be incurred if customers cancel their insurance policies.

This change has been applied retroactively and following amounts restated as follows:

	Calculated in accordance with previous policy	Restated
December 31, 2004		
Commission revenue	$ 41,179,886	$ 41,116,517
Income tax expense	$ 1,714,123	$ 1,699,517
Allowance for cancellations	$ -	$ 294,671
Future income taxes	$ 537,680	$ 527,662
December 31, 2003	$ -	$ -
Commission revenue	$ 32,131,498	$ 32,097,872
Income tax expense	$ 1,129,150	$ 1,120,662
Allowance for cancellations	$ -	$ 231,302
Future income taxes	$ 570,900	$ 485,318
Retained earnings, end of year	$ 3,319,166	$ 3,173,446

Stock-Based Compensation

Effective January 1, 2003, the Company changed its method of reporting stock based compensation to the fair value based method. This change in accounting policy has been applied prospectively to options issued after January 1, 2003.

NOTE 26 PREPAID EXPENSE

At December 31, 2003, prepaid expenses include $402,730 in respect of legal and other costs associated with a claim filed against Montreal Trust. During the year, the Company received a judgment in favor of Montreal Trust. Management has determined that there is sufficient basis upon which to file an appeal. As the outcome of this appeal is not determinable, the costs incurred to date have been recorded as a one-time charge in the current year. Any recovery of costs as a result of the appeal will be recorded in the year received.

NOTE 27 FINANCIAL INSTRUMENTS

For certain of the Company's financial instruments, including cash, accounts receivable, demand loans, accounts payable and accrued liabilities, the carrying amounts approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of marketable securities has been estimated based on market values of the securities as at December 31. (Note 4)

The fair value of fixed rate mortgages and loans has been estimated by discounting the expected future cash flows at market rates for loans with similar terms and risks. For floating rates loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market. Fair value of mortgages and loans as at December 31, 2004 is estimated to be $45,079,826 (2003 - $18,437,784).

The fair value of customer deposits is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and risks and is estimated to be $49,486,016 as at December 31, 2004 (2003 - $20,833,072).

Management considers that no events have occurred subsequent to the arrangement of the credit agreement with its bank that would indicate that the fair value of bank loans differs substantially from their carrying value.

The fair value of the $10,974,300 (2003 - $11,473,000) convertible debentures is based on the quoted market price of the debentures at the respective balance sheet dates and, as at December 31, 2004 and 2003, was approximately $11,907,100 and $12,849,800, respectively.

The fair values of the $5,000,000 and $10,000,000 convertible debentures are not determinable due to the existence of business development agreements with the holders that would have the effect of reducing the effective rate.

The fair value of the preferred shares is not determinable as there is no active market for these instruments.

Credit Risk

The Company is exposed to credit risk with respect to its marketable securities, accounts receivable and mortgages and loans receivable.

Restricting both the type and the term of investments mitigates marketable securities risk. The Company only invests in Canadian corporations and institutions with large capitalization and acceptable liquidity to reduce credit risk.

Accounts receivable risk is minimized by the Company's large customer base, which covers all consumer and business sectors in British Columbia, Saskatchewan and Alberta. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

Credit risk with respect to mortgages and loans is mitigated through conservative underwriting policies and charges against real property that reduce the Company's risk exposure on these loans. Certain of the residential mortgages are insured through Canada Mortgage and Housing Corporation.

Interest Rate Risk

The Company entered into an interest rate swap agreement, expiring in May 2008, to manage the interest rate risk on a portion of its bank debt. Under the terms of the agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 6.225% per annum. The counter-party to this agreement is a large Canadian financial institution, which presents minimal credit risk. The actual amount of gain or loss on this hedge will fluctuate with current interest rates. As at December 31, 2004 the actual interest rate on the underlying debt instrument was 3.996% (2003 - 4.139%) per annum. Assuming this interest rate were in effect for the term of the agreement, the Company would recognize an annual loss of $181,000 as interest expense.

The Company is exposed to interest rate risk arising from fluctuations in interest rates on certain of its bank term loans payable. The Company is also exposed to interest rate risk arising from the mismatch, or gap, between the assets and liabilities of Bank West that are scheduled to mature or re-price on particular dates.



NOTE 27 FINANCIAL INSTRUMENTS (CONTINUED)

December 31, 2004	Floating Rate	Less than 3 months	3 months - 1 year	Total within 1 year	Over 1 year to 5 years	Non-interest rate sensitive	Total
Assets:							
Cash Resources	$ 2,281,495	$ -	$ -	$ 2,281,495	$ -	$ -	$ 2,281,495
Securities	-	3,498,976	2,155,902	5,654,878	4,540,435	267,585	10,462,898
Loans	8,356,487	4,720,516	5,854,335	18,931,338	24,464,864	(269,696)	43,126,506
Other assets	-	-	-	-	-	2,526,086	2,526,086
Total	$ 10,637,982	$ 8,219,492	$ 8,010,237	$ 26,867,711	$ 29,005,299	$ 2,523,975	$ 58,396,985
Liabilities & Equity:							
Deposits		$ 4,301,080	$ 5,595,071	$ 9,896,151	$ 39,674,460	$ -	$ 49,570,611
Other Liabilities	-	-	-	-	-	1,479,187	1,479,187
Shareholder's Equity	-	-	-	-	-	7,347,187	7,347,187
Total	$ -	$ 4,301,080	$ 5,595,071	$ 9,896,151	$ 39,674,460	$ 8,826,374	$ 58,396,985
Interest-rate Sensitive Gap	$ 10,637,982	$ 3,918,411	$ 2,415,166	$ 16,971,560	$ (10,669,161)	$ (6,302,399)	
Cumulative Gap	$ 10,637,982	$ 14,556,393	$ 16,971,560		$ 6,302,398	$ -	
Cumulative gap as a percentage of total assets	18%	25%	29%		11%		

December 31, 2003	Floating Rate	Less than 3 months	3 months - 1 year	Total within 1 year	Over 1 year to 5 years	Non-interest rate sensitive	Total
Assets:							
Cash Resources	$ 434,454	$ -	$ -	$ 434,454	$ -	$ 861,302	$ 1,295,756
Securities	-	6,870,459	2,785,529	9,655,988	425,000	108,524	10,189,512
Loans	1,638,370	2,315,908	4,732,832	8,687,110	7,743,003	(80,292)	16,349,821
Other assets	-	-	-	-	-	1,717,584	1,717,584
Total	$ 2,072,824	$ 9,186,367	$ 7,518,361	$ 18,777,552	$ 8,168,003	$ 2,607,118	$ 29,552,673
Liabilities & Equity:							
Deposits		$ 1,799,394	$ 9,478,975	$ 11,278,369	$ 9,374,687	$ -	$ 20,653,056
Other Liabilities	-	-	-	-	-	789,395	789,395
Shareholder's Equity	-	-	-	-	-	8,110,222	8,110,222
Total	$ -	$ 1,799,394	$ 9,478,975	$ 11,278,369	$ 9,374,687	$ 8,899,617	$ 29,552,673
Interest-rate Sensitive Gap	$ 2,072,824	$ 7,386,973	$ (1,960,614)	$ 7,499,183	$ (1,206,684)	$ (6,292,499)	
Cumulative Gap	$ 2,072,824	$ 9,459,797	$ 7,499,183	$ -	$ 6,292,499	$ -	
Cumulative gap as a percentage of total assets	7%	32%	25%		21%		

NOTE 28 SEGMENTED INFORMATION

The Company has three reportable segments: insurance brokerage, banking services, corporate and all other which includes travel agencies and real estate assets. The insurance brokerage segment provides a variety of property, casualty, life and health, and investment products and services to customers across Western Canada through WFG Agency Network. The banking segment commenced operations in January 2003 and provides premium financing to customers of the insurance segment as well as loans and mortgages to other customers through Bank West.

The results of these business segments are based on the internal financial reporting systems of the Company. The accounting policies used in these segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 2.

Management monitors the financial performance of WFG Agency Network based on operating income and customer accounts receivable. The operations of Bank West are monitored based on net income before income tax; the financial position is monitored based on net assets used in that segment as reported in the financial statements of Bank West.

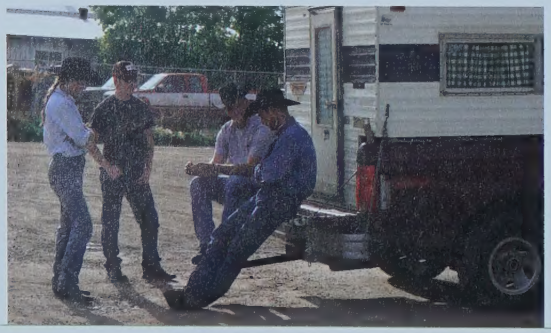
Because of the integrated nature of the Company's operations, all other assets, including intangibles and goodwill, are managed and reported at a corporate level. Goodwill is, however, allocated to reporting units within each segment for purposes of impairment testing. All amortization expense and interest on long term debt is recorded as a corporate expense.

2004	Bank West	WFG Agency Network	Corporate and all other	Corporate eliminations	Total
Revenue					
Commissions and other customer revenues	$ -	$ 36,046,430	$ 5,218,978	$ (148,891)	$ 41,116,517
Loan interest and investment income	2,184,086	-	-	-	2,184,086
Interest paid on customer deposits	(1,297,323)	-	-	-	(1,297,323)
Provision for credit losses	(191,490)	-	-	-	(191,490)
Net interest and investment income	695,273	21,636	409,732	-	1,126,641
Total revenue	695,273	36,068,066	5,628,710	(148,891)	42,243,158
Operating expenses	(1,527,709)	(25,804,090)	(6,605,167)	148,891	(33,788,075)
Amortization of start up and reorganization costs	(292,301)	-	(150,297)	-	(442,598)
Operating income	(1,124,737)	10,263,976	(1,126,754)	-	8,012,485
Income from long-term investments	-	-	1,322,665	-	1,322,665
One time charge	-	-	(669,963)	-	(669,963)
Loss on sale of goodwill and other intangible assets	-	-	(94,467)	-	(94,467)
Amortization of capital assets	-	-	(1,052,099)	-	(1,052,099)
Amortization of intangibles	-	-	(219,849)	-	(219,849)
Interest and financing costs on long-term debt	-	-	(1,370,026)	-	(1,370,026)
	$ (1,124,737)	$ 10,263,976	$ (3,210,493)	-	$ 5,928,746
Total assets	$ 58,396,985	$ 14,070,942	$ 84,341,549	-	$ 156,809,476
Goodwill	$ -	$ 43,613,649	$ 780,441	-	$ 44,394,090

2003	Bank West	WFG Agency Network	Corporate and all other	Corporate eliminations	Total
Revenues					
Commissions and other customer revenues	$ -	$ 29,455,735	$ 2,765,219	$ (123,082)	$ 32,097,872
Loan interest and investment income	660,044	-	282,848	-	942,892
Interest paid on customer deposits	(294,449)	-	-	-	(294,449)
Provision for credit losses	(80,292)	-	-	-	(80,292)
Net interest and investment income	285,303	-	282,848	-	568,151
Total revenue	285,303	29,455,735	3,048,067	(123,082)	32,666,023
Operating expenses	(1,079,993)	(21,201,350)	(4,467,023)	123,082	(26,625,284)
Amortization of start up and reorganization costs	(243,412)	-	(317,870)	-	(561,282)
Operating income	(1,038,102)	8,254,385	(1,736,826)	-	5,479,457
Income from equity investments	-	-	316,308	-	316,308
Loss on sale of goodwill and intangible assets	-	-	(37,277)	-	(37,277)
Amortization of capital assets	(31,220)	-	(895,511)	-	(926,731)
Amortization of intangibles	-	-	(132,386)	-	(132,386)
Interest and financing costs on long-term debt	-	-	(1,458,971)	-	(1,458,971)
	$ (1,069,322)	$ 8,254,385	$ (3,944,663)	$ -	$ 3,240,400
Total assets	$ 29,552,673	$ 12,687,652	$ 74,082,246		$ 116,322,571
Goodwill	$ -	$ 38,027,061	$ 780,441		$ 38,807,502

During 2004, five companies individually comprised 27%, 21%, 11%, 10% and 10% of total commissions earned in the WFG Agency Network segments.

During 2003, five companies individually comprised 27%, 20%, 12%, 11% and 10% of total commissions earned in the WFG Agency Network segments.



Corporate information

DIRECTORS AND OFFICERS

Jim Dinning [1, 2]
Chairman of the Board of Directors
Calgary, Alberta

Scott A Tannas
High River, Alberta

Catherine A Rogers
Corporate Secretary
High River, Alberta

Thomas C Dutton
High River, Alberta

Gabor Jelinek [2]
Montreal, Quebec

Robert G Jennings
Calgary, Alberta

Linda Lively
Nanton, Alberta

Gregg J Speirs [1]
Calgary, Alberta

Jean-Denis Talon [1]
Montreal, Quebec

Philip L Webster [1]
Montreal, Quebec

Bill Yuill [2]
Medicine Hat, Alberta

1 Member of the Audit Committee
2 Member of the Compensation Committee

KEY PERSONNEL AT WESTERN FINANCIAL GROUP, HEAD OFFICE

Scott A Tannas
President and Chief Executive Officer

Catherine A Rogers
Sr. Vice President and Chief Financial Officer

Thomas C Dutton
Sr. Vice President

R William Rogers
Sr. Vice President

SOLICITORS

MacLeod Dixon LLP
Calgary, Alberta

Transfer Agent
Computershare Investor Services Inc
Calgary, Alberta

AUDITORS

PricewaterhouseCoopers, LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: WES

CORPORATE HEADQUARTERS

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NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders of Western Financial Group will be held on Monday, May 2, 2005 at 3:30 pm at the Telus Convention Centre, 120 – 9 Avenue SE, Calgary, Alberta. Shareholders and others interested in the affairs of the Company are welcome to attend.



WESTERN FINANCIAL GROUP INC.

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